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*This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities referred to herein. This announcement is not an offer of securities of the Issuer for sale, or the solicitation of an offer to buy securities of the Issuer, in the United States. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities laws of the United States, and may not be offered or sold within the United States except pursuant to an exemption under, or in a transaction not subject to, the U.S. Securities Act. This announcement and the information contained herein are not for distribution, directly or indirectly, in or into the United States. No public offer of the securities referred to herein is being or will be made in the United States.*

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Notice to Hong Kong investors: The Bank confirms that the Notes are intended for purchase by Professional Investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Bank confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

中信银行
CHINA CITIC BANK

中 信 銀 行 股 份 有 限 公 司
China CITIC Bank Corporation Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability) (the "**Bank**")
(Stock Code: 998)

U.S.$5,000,000,000 MEDIUM TERM NOTE PROGRAMME (THE "PROGRAMME")

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 28 December 2020 (the "**Offering Circular**") appended hereto in relation to the Programme. As disclosed in the Offering Circular, the notes (the "**Notes**") to be issued under the Programme will be intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and will be listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any Notes of the Bank or any branch of the Bank, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

By Order of the Board
China CITIC Bank Corporation Limited
LI Qingping
Chairperson

29 December 2020

As at the date of this announcement, the executive directors of the Bank are Ms. Li Qingping (Chairperson), Mr. Fang Heying (President), and Mr. Guo Danghuai; the non-executive directors are Mr. Cao Guoqiang, Ms. Huang Fang and Mr. Wan Liming; and the independent non-executive directors are Mr. He Cao, Ms. Chen Lihua, Mr. Qian Jun and Mr. Yan Lap Kei Isaac.

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OFFERING CIRCULAR DATED 28 DECEMBER 2020

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND (IN THE CASE OF NOTES OFFERED OR SOLD IN RELIANCE ON CATEGORY 2 OF REGULATION S) ARE NOT U.S. PERSONS.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the "**Offering Circular**"). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your representation: The Offering Circular is being sent to you at your request, and by accepting the e-mail and accessing the attached document, you shall be deemed to represent to China CITIC Bank Corporation Limited (the "**Bank**") or any branch of the Bank as specified in the relevant Pricing Supplement (a "**Branch Issuer**" and, together with the Bank, the "**Issuers**" and each an "**Issuer**") and China CITIC Bank International Limited (the "**Arranger**") that (1) you and any customers you represent are not U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) that you consent to the delivery of the attached and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Bank, the Issuer, the Arranger, the dealers named herein (the "**Dealers**"), the agents named herein (the "**Agents**") nor their respective affiliates and their respective directors, officers, employees, representatives, agents and each person who controls the Bank, the Issuer, the Arranger, a Dealer, an Agent or their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you on request from the Arranger or Dealers.

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Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Bank, the Issuer, the Arranger or the Dealers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and an Arranger or a Dealer or any affiliate of it is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the Issuer in such jurisdiction.

You are reminded that you have accessed the Offering Circular on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. **If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.**

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中信银行
CHINA CITIC BANK

CHINA CITIC BANK CORPORATION LIMITED

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

(Hong Kong Stock Exchange Stock Code: 00998;
Shanghai Stock Exchange Stock Code: 601998)

U.S.$5,000,000,000

Medium Term Note Programme

Under the Medium Term Note Programme (the "**Programme**"), China CITIC Bank Corporation Limited (the "**Bank**") or any branch of the Bank as specified in the relevant Pricing Supplement (as defined below) (a "**Branch Issuer**" and together with the Bank, the "**Issuers**" and each an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$5,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Bank (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) ("**Professional Investors**") only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Bank or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Where applicable for a relevant Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted to the Bank or its affiliate by the National Development and Reform Commission of the PRC (the "**NDRC**") or registration will be completed by the Bank with the NDRC pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC which came into effect on 14 September 2015 and the applicable implementation rules or policies thereof as issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of such relevant Tranche of Notes, the Bank intends to provide or cause to be provided the requisite information on the issuance of such Notes to the NDRC within the time period as required by the NDRC.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in a pricing supplement (the "**Pricing Supplement**").

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other stock exchanges or markets as may be agreed between the Issuer and the relevant Dealers. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or (in the case of Notes offered or sold in reliance on Category 2 of Regulation S) to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*" below.

Each Tranche of Notes of each Series (as defined in "*Form of the Notes*") in bearer form will be represented on issue by a temporary global note in bearer form (each a "**Temporary Bearer Global Note**" or "**Temporary Global Note**") or a permanent global note in bearer form (each a "**Permanent Bearer Global Note**" or "**Permanent Global Note**"). Notes in registered form will initially be represented by a global note in registered form (each a "**Registered Global Note**" or "**Global Certificate**" and, together with any Temporary Bearer Global Notes and Permanent Bearer Global Notes, the "**Global Notes**" and each a "**Global Note**"). Registered Global Notes will be registered in the name of, or in the name of a nominee for, one or more clearing systems. Global Notes may be deposited on the issue date with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Global Notes may also be deposited with a sub-custodian for the Hong Kong Monetary Authority (the "**HKMA**"), as operator of the Central Moneymarkets Unit Service, operated by the HKMA (the "**CMU Service**" or "**CMU**"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Form of the Notes*".

The Issuer may agree with any Dealer that the Notes may be issued in a form not contemplated by the terms and conditions of the Notes set out herein under "*Terms and Conditions of the Notes*" (the "**Terms and Conditions of the Notes**"), in which event (in the case of Notes intended to be listed on the Hong Kong Stock Exchange) a supplemental offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Bank has been rated Baa2 by Moody's Investors Service, Inc. ("**Moody's**"), BBB+ by S&P Global Ratings ("**S&P**") and BBB by Fitch Ratings Ltd. ("**Fitch**"). The Programme has been rated BBB+ by S&P. Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme, and (where applicable) such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of the Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with the Notes. Investors should be aware that there are various other risks relating to the Notes, the Issuer, the Bank and its subsidiaries, their business and their jurisdictions of operations which investors should familiarise themselves with before making an investment in the Notes. See "*Risk Factors*" beginning on page 13 for a discussion of certain factors to be considered in connection with an investment in the Notes.

Arranger and Dealer
China CITIC Bank International

The date of this Offering Circular is 28 December 2020.

IMPORTANT NOTICE

The Bank, having made all reasonable enquiries, confirms that, to the best of its knowledge and belief: (i) this Offering Circular contains all information with respect to the Bank and its subsidiaries taken as a whole (the "**Group**") and to the Notes which is material in the context of the issue and offering of the Notes (including all information which, according to the particular nature of the Bank and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Group and of the rights attaching to the Notes); (ii) the statements contained herein relating to the Bank, the Group and the Notes are in every material respect true and accurate and not misleading; and (iii) there are no other facts in relation to the Bank, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material aspect.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Bank. Each of the Issuer and the Bank accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having taken all reasonable care and made all reasonable enquiries, that the information contained in this Offering Circular is in accordance with the facts, and that to the best of its knowledge and belief there are no other facts the omission of which would make any statements herein misleading or would likely affect the import of such statements.

No person is or has been authorised by the Issuer or the Bank to give any information or to make any representations other than those contained in this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Bank, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates.

The Arranger and the Dealers have not separately verified the information contained in this Offering Circular to the fullest extent permitted by law. None of the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates accepts any responsibility for the contents of this Offering Circular. Each of the Arranger and the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements included or incorporated herein are intended to provide the basis of any credit or other evaluation, and should not be considered as a recommendation by any of the Issuer, the Bank, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates that any recipient of this Offering Circular or any such financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Bank and the risks involved. The purchase of Notes by investors should be based upon their investigation, as they deem necessary. None of the Arranger nor the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates undertakes to review the financial condition or affairs of the Issuer, the Bank and the Group during the life of the arrangements contemplated by this Offering Circular, nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates.

Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Bank, any of the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer or the Bank is correct at any time subsequent to the date hereof, or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger and the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates expressly do not undertake to review the financial condition or affairs of the Issuer or the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES OF THE SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES. HOWEVER, THERE IS NO OBLIGATION ON SUCH STABILISATION MANAGER(S) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or (in the case of Notes offered or sold in reliance on Category 2 of Regulation S) to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*" and the applicable Pricing Supplement.

PRIIPs/IMPORTANT – EEA AND UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA and UK Retail Investors*", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

MIFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "*MiFID II Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) – The Pricing Supplement in respect of any Notes may include a legend entitled "Singapore Securities and Futures Act Product Classification" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"). The Issuer will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular or any Pricing Supplement and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Bank, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Bank, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of the Notes in the United States, the European Economic Area, the United Kingdom, Singapore, Japan, Hong Kong and the People's Republic of China. See "*Subscription and Sale*" and the relevant Pricing Supplement.

Industry and Market Data

Market data and certain information and statistics included in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer believes the information to be reliable, it has not been independently verified by the Issuer, the Bank, the Arranger, the Dealers or the Agents or their respective affiliates, directors, officers, employees, agents, advisers or representatives and none of the Issuer, the Bank, the Arranger, the Dealers or the Agents or their respective affiliates, directors, officers, employees, agents, advisers or representatives makes any representation as to the accuracy or completeness of such information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. In making an investment decision, each investor must rely on its own examination of the Issuer, the Bank, the Group and the terms of the offering and the Notes, including the merits and risks involved. Where information has been sourced from a third party, the Issuer confirms that this information has been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information to be inaccurate or misleading.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018 (the "**2018 Annual Financial Statements**") and the audited consolidated financial statements of the Group as at and for the year ended 31 December 2019 (the "**2019 Annual Financial Statements**"). The 2018 Annual Financial Statements and the 2019 Annual Financial Statements were published on 29 April 2019 and 28 April 2020, respectively and were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The 2018 Annual Financial Statements and the 2019 Annual Financial Statements have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PricewaterhouseCoopers**"), independent auditor of the Bank, in accordance with International Standards on Auditing ("**ISA**") and are included elsewhere in this Offering Circular.

This Offering Circular contains the unaudited but reviewed consolidated interim financial statements of the Group as at and for the six months ended 30 June 2020 (the "**2020 Interim Financial Statements**"). The 2020 Interim Financial Statements were published on 28 September 2020 and were prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("**IAS 34**") issued by the IASB.

The 2020 Interim Financial Statements (which include the comparative financial information for the six months ended 30 June 2019) have been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the International Auditing and Assurance Standard Board and are included elsewhere in this Offering Circular. However, the 2020 Interim Financial Statements should not be relied upon by prospective investors to provide the same quality of information associated with information that has been subject to an audit. Prospective investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. The consolidated interim financial information of the Group as at and for the six months ended 30 June 2020 should not be taken as an indication of the expected financial condition and results of operations for the Group for the full financial year ending 31 December 2020.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires, references herein to the "**Bank**" refer to China CITIC Bank Corporation Limited; references to the "**Issuer**" refer to the Bank or any branch of the Bank as specified in the relevant Pricing Supplement as being the issuer of a Series of Notes; references to the "**Group**" refer to the Bank and its subsidiaries taken as a whole; references to "**U.S. dollars**" and "**U.S.$**" are to the lawful currency of the United States of America (the "**USA**" or the "**U.S.**"); references to "**Hong Kong dollars**", "**HK dollars**" and "**HK$**" are to the lawful currency of Hong Kong; references to "**Renminbi**" and "**RMB**" are to the lawful currency of the People's Republic of China (the "**PRC**"); references to "**Sterling**" and "**£**" are to the lawful currency of the United Kingdom and references to "**EUR**", "**euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In addition, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the PRC, references to "**Macau**" are to the Macau Special Administrative Region of the PRC, references to "**Mainland China**" are to the PRC excluding Hong Kong and Macau and references to "**Greater China**" are to the PRC including Hong Kong and Macau.

Unless otherwise specified or the context requires, references to:

- "**CBIRC**" refer to the China Banking and Insurance Regulatory Commission (and the former China Banking and Regulatory Commission and China Insurance Regulatory Commission);
- "**CIFH**" refer to CITIC International Financial Holdings Limited;
- "**CITIC aiBank**" refer to CITIC aiBank Corporation Limited;
- "**CITIC Financial Leasing**" refer to CITIC Financial Leasing Co., Ltd.
- "**CITIC Group**" refer to CITIC Group Corporation Limited;
- "**CNCBI**" refer to CITIC Bank International Limited;
- "**CSRC**" refer to the China Securities Regulatory Commission
- "**GDP**" refer to gross domestic product;
- "**IT**" refer to information technology;
- "**MOF**" refer to the Ministry of Finance of the PRC;
- "**MOFCOM**" refer to the Ministry of Commerce of the PRC
- "**NAO**" refer to the National Audit Office of the PRC;
- "**NPL**" refer to non-performing loans;
- "**PBOC**" refer to the People's Bank of China, the central bank of the PRC;
- "**SAFE**" refer to the State Administration of Foreign Exchange of the PRC; and
- "**SAMR**" refer to the State Administration for Market Regulation of the PRC.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Unless otherwise specified, where financial information has been translated into U.S. dollars, it has been so translated for information purposes only, in the case of Renminbi, at the rate of RMB7.0651 equal to U.S.$1.00 on 30 June 2020 as set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that the Hong Kong dollar, Renminbi, Euro or U.S. dollar amounts referred to herein could have been or could be converted into Hong Kong dollars, Renminbi, Euro or U.S. dollars, as the case may be, at any particular rate or at all.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Offering Circular which contain words or phrases such as "will", "would", "aim", "aimed", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "anticipated", "estimate", "estimating", "intend", "plan", "seeking to", "future", "objective", "should", "can", "could", "may", and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Issuer's expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to pay dividends, its ability to roll over its short-term funding sources, its exposure to operational, market, credit, interest rate and currency risks and the market acceptance of and demand for internet banking services. These forward-looking statements speak only as of the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited consolidated financial statements of the Group and the most recently published unaudited but reviewed consolidated interim financial statements of the Group, together with any audit or review reports prepared in connection therewith and the most recently published unaudited and unreviewed consolidated quarterly financial statements of the Group; and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference, unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office, as set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the office of Citicorp International Limited (the "**Fiscal Agent**") at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. Pricing Supplements relating to unlisted Notes will only be available for inspection by a holder of such Notes, and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Notes and its identity.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new or supplemental offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject to those matters set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement hereto will only be valid for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$5,000,000,000 or its equivalent in other currencies.

SELECTED FINANCIAL INFORMATION

The following tables set forth the Group's selected consolidated financial information as at and for the periods indicated.

The selected consolidated financial information as at and for the years ended 31 December 2017, 2018 and 2019, as set forth below, has been derived from and should be read in conjunction with, the 2018 Annual Financial Statements and the 2019 Annual Financial Statements which have been audited by PricewaterhouseCoopers in accordance with ISA and are included elsewhere in this Offering Circular. The 2018 Annual Financial Statements and the 2019 Annual Financial Statements have been prepared by the Bank in accordance with the IFRS.

The selected unaudited consolidated interim financial information as at 30 June 2020 and for the six months ended 30 June 2019 and 2020, as set forth below, has been derived from, and should be read in conjunction with, the 2020 Interim Financial Statements which have been reviewed by PricewaterhouseCoopers in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and are included elsewhere in this Offering Circular. The 2020 Interim Financial Statements have been prepared by the Bank in accordance with IAS 34 "Interim Financial Reporting". The 2020 Interim Financial Statements should not be taken as an indication of the expected financial condition and results of operations of the Group for the full financial year ending on 31 December 2020.

*The Group has adopted IFRS 9 "Financial Instruments" ("**IFRS 9**"), which took effect on 1 January 2018. The impact of the initial application of this new accounting standard is disclosed in note 3(c) and note 4(c) to the 2018 Annual Financial Statements. The classification and measurement and impairment requirements of IFRS 9 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Please refer to note 3(c) of the 2018 Annual Financial Statements. Also, since 1 January 2019, the instalment cash income of credit cards from fee income to interest income have been reclassified. Such figure for the year ended 31 December 2018 has been restated to conform to the presentation for the year ended 31 December 2019. Please refer to the 2019 Annual Financial Statements for the figures as of and for the year ended 31 December 2018 and note 65 of the 2019 Annual Financial Statements. Therefore, the consolidated financial information of the Group as of and for the year ended 31 December 2017 may not be directly comparable to the consolidated financial information of the Group after 1 January 2018.*

*The Group has adopted IFRS 16 "Leases" ("**IFRS 16**"), which took effect on 1 January 2019. The impact of the initial application of this new accounting standard is disclosed in note 3 (c) to the 2019 Annual Financial Statements. The recognition and measurement requirements of IFRS 16 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Therefore, consolidated financial information of the Group as of and for the years ended 31 December 2017 and 2018 may not be directly comparable to consolidated financial information of the Group after 1 January 2019. Please refer to note 3(c) of the 2019 Annual Financial Statements.*

In addition, since 1 January 2020, certain items under short-term staff costs were reclassified and comparatives were restated. Such figures for the six months ended 30 June 2019 have been restated to conform to the presentation for the six months ended 30 June 2020. Please refer to the 2020 Interim Financial Statements for the figures as of and for the six months ended 30 June 2019 and note 34(a) and note 60 of the 2020 Interim Financial Statements.

Investors must therefore exercise caution when making comparisons of consolidated financial figures of the Group and when evaluating the financial condition and results of operations of the Group. Investors should consult their own independent financial advisers for professional advice.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2017	2018	2019	2020
		(RMB in millions)		
				(Unaudited)
Assets				
Cash and balances with central banks	568,300	538,708	463,158	424,377
Deposits with banks and non-bank financial institutions	124,350	99,153	121,297	111,131
Precious metals	3,348	4,988	6,865	4,434
Placements with and loans to banks and non-bank financial institutions	172,069	176,160	204,547	220,414
Financial assets at fair value through profit or loss	65,904	–	–	–
Derivative financial assets	65,451	31,991	17,117	25,050
Financial assets held under resale agreements	54,626	10,790	9,954	38,061
Interest receivables	32,643	–	–	–
Loans and advances to customers	3,105,984	3,515,650	3,892,602	4,090,669
Financial Investments	–	1,600,163	1,873,596	1,991,665
– at fair value through profit or loss	–	308,872	317,546	303,654
– at amortised cost	–	778,238	924,234	944,479
– at fair value through other comprehensive income	–	510,346	628,780	739,881
– designated at fair value through other comprehensive income	–	2,707	3,036	3,651
Available-for-sale financial assets	631,690	–	–	–
Held-to-maturity investments	216,586	–	–	–
Investment classified as receivables	531,118	–	–	–
Investments in associates and joint ventures	2,341	3,881	3,672	3,657
Investment properties	295	443	426	455
Property, plant and equipment	21,330	21,385	22,372	22,178
Right-of-use assets	–	–	12,390	11,664
Intangible assets	1,139	1,879	1,874	1,799
Goodwill	849	896	912	931
Deferred tax assets	21,825	23,174	32,095	42,837
Other assets	57,843	37,453	87,556	91,294
Total assets	**5,677,691**	**6,066,714**	**6,750,433**	**7,080,616**
Liabilities				
Borrowings from central banks	237,600	286,430	240,298	126,229
Deposits from banks and non-bank financial institutions	798,007	782,264	951,122	995,685
Placements from banks and non-bank financial institutions	77,595	115,358	92,539	71,980
Financial liabilities at fair value through profit or loss	–	962	847	5,582
Derivative financial liabilities	64,937	31,646	16,836	24,633
Financial assets sold under repurchase agreements	134,500	120,315	111,838	104,942
Deposits from customers	3,407,636	3,649,611	4,073,258	4,484,465
Accrued staff costs	8,838	10,549	12,132	17,987
Taxes payable	8,858	4,920	8,865	10,054
Interest payable	39,323	–	–	–
Debt securities issued	441,244	552,483	650,274	635,713
Lease liabilities	–	–	10,896	10,490
Provisions	796	5,013	6,116	6,181
Deferred tax liabilities	8	16	10	11
Other liabilities	45,916	54,061	42,878	40,298
Total liabilities	**5,265,258**	**5,613,628**	**6,217,909**	**6,534,250**
Equity				
Share capital	48,935	48,935	48,935	48,935
Other equity instruments	34,955	34,955	78,083	78,083
Capital reserve	58,977	58,977	58,977	58,977
Other comprehensive income	(11,784)	5,269	7,361	7,081
Surplus reserve	31,183	34,450	39,009	39,009
General reserve	74,251	74,255	81,535	81,535
Retained earnings	163,121	179,820	203,411	217,257
Total equity attributable to equity holders of the Bank	**399,638**	**436,661**	**517,311**	**530,877**
Non-controlling interests	12,795	16,425	15,213	15,489
Total equity	**412,433**	**453,086**	**532,524**	**546,366**
Total liabilities and equity	**5,677,691**	**6,066,714**	**6,750,433**	**7,080,616**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
			(RMB in millions)		
				(Unaudited)	
Interest income	220,762	241,933	268,498	130,777	140,295
Interest expense	(121,117)	(129,021)	(141,227)	(69,265)	(75,360)
Net interest income	**99,645**	**112,912**	**127,271**	**61,512**	**64,935**
Fee and commission income	51,687	42,599	52,284	26,843	27,933
Fee and commission expense	(4,829)	(5,591)	(5,900)	(2,901)	(2,577)
Net fee and commission income	**46,858**	**37,008**	**46,384**	**23,942**	**25,356**
Net trading gain	6,583	6,519	5,229	2,682	2,218
Net gain from investment securities	3,757	9,046	8,629	4,941	9,569
Net hedging loss	1	(1)	(2)	(3)	(1)
Other operating income	387	282	370	118	123
Operating income	**157,231**	**165,766**	**187,881**	**93,192**	**102,200**
Operating expenses	(48,913)	(52,600)	(54,168)	(24,673)	(23,675)
Operating profit before impairment	**108,318**	**113,166**	**133,713**	**68,519**	**78,525**
Impairment losses on					
– Loans and advances to customers	(50,170)	–	–	–	–
– Others	(5,617)	–	–	–	–
Total impairment losses	**(55,787)**	**–**	**–**	**–**	**–**
Credit impairment losses	–	(57,886)	(76,679)	(33,956)	(47,229)
Impairment losses on other assets	–	(347)	(576)	(234)	(496)
Revaluation (loss)/gain on investment properties	30	35	(15)	6	(34)
Share of (loss)/gain of associates and joint ventures	(285)	(642)	102	107	(20)
Profit before tax	**52,276**	**54,326**	**56,545**	**34,442**	**30,746**
Income tax expense	(9,398)	(8,950)	(7,551)	(5,605)	(4,782)
Profit for the year/period	**42,878**	**45,376**	**48,994**	**28,837**	**25,964**
Net profit attributable to:					
Equity holders of the Bank	42,566	44,513	48,015	28,307	25,541
Non-controlling interests	312	863	979	530	423
Profit for the year/period	**42,878**	**45,376**	**48,994**	**28,837**	**25,964**

	For the year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
			(RMB in millions)		
				(Unaudited)	
Other comprehensive income, net of tax					
Items that will not be reclassified to profit or loss (net of tax):					
– Net changes on the measurement of defined benefit plan	(8)	7	–	(1)	–
– Fair value changes on financial investments designated at fair value through other comprehensive income	–	11	(789)	44	(47)
– Fair value changes on transfers from owner-occupied property to investment property	–	65	–	–	53
Items that may be reclassified subsequently to profit or loss (net of tax):					
– Other comprehensive income transferable to profit or loss under equity method	(9)	(10)	–	1	(5)
– Fair value changes on available-for-sales financial assets	(8,042)	–	–	–	–
– Fair value changes on financial assets at fair value through other comprehensive income	–	10,040	1,714	(108)	(1,601)
– Impairment allowance on financial assets at fair value through other comprehensive income	–	140	685	524	427
– Exchange difference on translating foreign operations	(2,583)	2,209	592	(203)	951
Other comprehensive income, net of tax	**(10,642)**	**12,462**	**2,202**	**257**	**(222)**
Total comprehensive income for the year/period	**32,236**	**57,838**	**51,196**	**29,094**	**25,742**
Total comprehensive income attribute to:					
Equity holders of the Bank	31,924	57,022	50,107	28,464	25,261
Non-controlling interests	312	816	1,089	630	481
Earnings per share attributable to the ordinary shareholders of the Bank					
Basic earnings per share (RMB)	0.84	0.88	0.95	0.58	0.52
Diluted earnings per share (RMB)	0.84	0.88	0.89	0.55	0.48

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
			(RMB in millions)		
				(Unaudited)	
Operating activities					
Profit before tax	52,276	54,326	56,545	34,442	30,746
Adjustments for:					
– revaluation gain on investments, derivatives and investment properties	(1,434)	2,825	373	(526)	(863)
– investment gain	(1,006)	(7,897)	(7,829)	(3,445)	(7,979)
– net losses/(gains) on disposal of property, plant and equipment, intangible assets and other assets	9	(363)	(3)	32	(3)
– unrealised foreign exchange gains	(415)	8	(323)	(458)	(88)
– credit impairment losses	55,515	57,886	76,679	33,956	47,229
– impairment losses on other assets	272	347	576	234	496
– depreciation and amortisation	2,811	2,942	2,821	1,366	1,395
– interest expense on debt securities issued	19,171	22,416	22,186	11,361	10,743
– dividend income from equity investment	(178)	(320)	(65)	(180)	(3)
– depreciation of right-of-use assets and interest expense on lease liabilities	–	–	3,793	1,845	1,915
– income tax paid	(14,521)	(15,875)	(13,503)	(9,247)	(14,562)
Subtotal	112,500	116,295	141,250	69,380	69,026
Changes in operating assets and liabilities:					
Decrease in balances with central banks	14,730	68,403	44,865	44,895	(11,530)
(Increase)/Decrease in deposits with banks and non-bank financial institutions	(9,442)	3,159	(70,522)	9,342	9,134
Decrease/(Increase) in placements with and loans to banks and non-bank financial institutions	10,896	42,501	(18,513)	(26,791)	(8,476)
Decrease in investments in financial assets held for trading purposes	–	17,850	29,279	–	–
Decrease in investments classified as receivables	503,423	–	–	–	–
Decrease in financial assets at fair value through the profit or loss	14,712	–	–	7,742	(19,888)
Decrease in financial assets held under resale agreements	116,178	43,837	788	(33,940)	(28,099)
Increase in loans and advances to customers non-bank financial institutions	(365,544)	(450,950)	(440,025)	(262,403)	(230,062)
Increase/(Decrease) in borrowings from central banks	53,550	43,980	(44,840)	(47,610)	(113,520)
(Decrease)/Increase in deposits from banks and non-bank financial institutions	(183,284)	(19,990)	170,271	63,624	42,895
(Decrease)/Increase in placements from banks and non-bank financial institutions	(4,921)	36,480	(23,227)	(55,313)	(20,857)
Increase/(Decrease) in financial liabilities at fair value through profit or loss	–	958	(243)	(958)	4,675
Decrease/(Increase) in financial assets sold under repurchase agreements	14,162	(14,229)	(8,467)	(77,312)	(6,879)
(Decrease)/Increase in deposits from customers	(215,583)	196,044	417,812	384,805	400,019
Decrease/(Increase) in other operating assets	495	6,721	(71,776)	(48,279)	(27,021)
(Decrease)/Increase in other operating liabilities	(7,798)	11,257	(9,683)	(18,635)	7,436
Subtotal	(58,426)	(13,979)	(24,281)	(60,833)	(2,171)
Net cash flows from operating activities	**54,074**	**102,316**	**116,969**	**8,547**	**66,853**

	For the year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
			(RMB in millions)		
				(Unaudited)	
Investing activities					
Proceeds from disposal and redemption of investments	1,007,237	1,396,004	1,940,528	998,944	1,141,291
Proceeds from disposal of property, plant and equipment, land use rights, and other assets	52	1,154	399	489	25
Cash received from equity investment income	178	320	373	180	421
Payments on acquisition of investments	(1,131,592)	(1,535,459)	(2,190,629)	(1,188,443)	(1,257,414)
Payments on acquisition of property, plant and equipment, land use rights and other assets	(7,980)	(4,754)	(4,056)	(1,193)	(1,091)
Net cash paid for acquisition of associates and joint ventures	(1,590)	(1,838)	–	–	–
Net cash received from disposal of associates	–	–	321	–	–
Net cash flows used in investing activities	**(133,695)**	**(144,573)**	**(253,064)**	**(190,023)**	**(116,768)**
Financing activities					
Cash received from share capital issued	7,847	–	–	–	–
Cash received from debt securities issued	862,890	922,161	586,270	264,925	263,936
Cash received from other equity instruments issued	–	3,343	39,993	–	–
Cash paid for redemption of debt securities issued.	(801,447)	(815,230)	(486,792)	(210,246)	(274,863)
Interest paid on debt securities issued	(17,699)	(21,836)	(22,829)	(10,772)	(11,728)
Dividends paid	(12,146)	(14,396)	(13,052)	(277)	(205)
Principle and interest paid for leasing liabilities	–	–	(3,011)	(1,112)	(1,627)
Net cash flows from/(used in) financing activities	**39,445**	**74,042**	**100,579**	**42,518**	**(24,487)**
Net (decrease)/increase in cash and cash equivalents	**(40,176)**	**31,785**	**(35,516)**	**(138,958)**	**(74,402)**
Cash and cash equivalents as at 1 January	385,356	337,915	376,009	376,009	342,449
Effect of exchange rate changes on cash and cash equivalents	(7,265)	6,309	1,956	(18)	2,406
Cash and cash equivalents as at the year/period end	**337,915**	**376,009**	**342,449**	**237,033**	**270,453**
Cash flows from operating activities include:					
Interest received	226,761	220,101	272,968	130,101	141,571
Interest paid	(101,237)	(113,272)	(119,236)	(58,685)	(57,382)

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Bank	China CITIC Bank Corporation Limited (中信銀行股份有限公司)
Issuer	The Bank or any branch of the Bank as specified in the relevant Pricing Supplement as being the Issuer of a Series of Notes
Description	Medium Term Note Programme
Arranger	China CITIC Bank International Limited
Dealers	China CITIC Bank International Limited and any other Dealer appointed from time to time either by the Bank generally in respect of the Programme or by the relevant Issuer in relation to a particular Series of Notes
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*" and the relevant Pricing Supplement), including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are received in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "*Subscription and Sale*".
Fiscal Agent	Citicorp International Limited
Registrar and Transfer Agent	Citibank, N.A., London Branch
CMU Lodging and Paying Agent	Citicorp International Limited
Programme Size	Up to U.S.$5,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.

Distribution	Notes may be distributed by way of private or public placement and, in each case, on a syndicated or non-syndicated basis. The Notes may be issued in series (each a "**Series**") having one or more issue dates (each tranche within such Series a "**Tranche**") and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a Pricing Supplement.
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Denominations	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Currencies	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.
Floating Rate Notes	The rate of interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in accordance with either ISDA Determination or Screen Rate Determination, as specified in the relevant Terms and Conditions of the Notes in respect of the Floating Rate Notes.

Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index-Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount, or offered and sold at their nominal amount and be redeemed at a premium, and will not bear interest.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons, or pursuant to a winding-up of the Issuer following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution. See "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. See "*Certain Restrictions*" above.

Taxation	All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without deduction for or on account of withholding taxes imposed by the PRC and, if the Issuer is a branch of the Bank, the jurisdiction where that branch is located, or in each case any political subdivision or any authority therein or thereof having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Notes, Receipts and the Coupons, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Events of Default	Events of Default for the Notes are set out in Condition 10.
Cross-Acceleration	The terms of the Notes will contain a cross-acceleration provision as further described in Condition 10(c).
Status of the Notes	The Notes and the Receipts and the Coupons relating to them will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, ranking *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.
Listing	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only on the Hong Kong Stock Exchange during the 12-month period from the date of this Offering Circular. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Ratings	Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision, reduction or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.

Jurisdiction	The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons, and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons may be brought in such courts.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, the European Economic Area, Singapore, Japan, Hong Kong and the PRC and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*" and the relevant Pricing Supplement.
United States Selling Restrictions	Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. Whether TEFRA C or D rules apply or whether TEFRA is not applicable will be specified in the applicable Pricing Supplement.
Clearing Systems	The CMU Service, Euroclear, Clearstream and/or any other clearing system as specified in the applicable Pricing Supplement. See "*Form of the Notes*".

RISK FACTORS

Investors should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Bank and the Group may be adversely affected by any of these risks. The risks described below are not the only ones relevant to the Bank or the Notes. The Bank believe the risks described below represent the principal risks inherent when considering an investment in the Notes. Additional risks and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur, and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

The Bank does not represent that the statements below regarding the risk factors of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

RISKS RELATING TO THE BANK'S BUSINESS

If the Bank is unable to maintain effectively the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

The Bank's results of operations are negatively impacted by its NPLs, and the sustainability of its growth primarily depends on its ability to manage its credit risk and maintain the quality of its loan portfolio (including related party loans) effectively. The Bank has undertaken various initiatives to improve its credit risk management policies, procedures and systems. Despite such efforts, the Bank's NPLs and NPL ratios have been on an upward trend. As at 31 December 2017, 2018 and 2019, and as at 30 June 2020, the Group's NPLs were RMB53.6 billion, RMB64.0 billion, RMB66.1 billion and RMB77.3 billion, respectively, representing NPL ratios of 1.7 per cent., 1.8 per cent., 1.7 per cent. and 1.8 per cent., respectively. Although the Bank believes that the increase in NPLs is in part due to the development of its business and the growth of its total assets, it cannot assure potential investors that its credit risk management policies, procedures and systems are free from any deficiency and any deficiency may result in an increase in the level of its NPLs and adversely affect the quality of its loan portfolio (including related party loans). In addition, the quality of its loan portfolio may also deteriorate due to various other reasons, including factors beyond the Bank's control. For example, in the first half year of 2020, under the influence of macro-economic downturn, Sino-U.S. trade frictions and the COVID-19 pandemic, private enterprises, especially small and medium enterprises, suffered from increased operational pressure and exposure to credit risk accelerated. As a result, the Group's NPLs and NPL ratios both increased. If such deterioration occurs, the Bank's business, financial condition, results of operations and prospects may be materially and adversely affected.

Actual losses on the Bank's loan portfolio may exceed its allowance for impairment losses in the future.

As at 30 June 2020, the Group's allowance for impairment losses on loans and advances to customers was RMB38.3 billion, while the ratio of its allowance for loan impairment losses to total loans to customers was 3.2 per cent. and the ratio of its allowance for loan impairment losses to NPLs was 175.7 per cent.. The amount of the allowance is based on the Group's current assessment of various factors affecting the quality of its loan portfolio and its expectation of changes to these factors that may affect the quality of its loan portfolio in the future. These factors include, among other things: (i) the financial condition, repayment ability and repayment intention of the Group's borrowers; (ii) the realisable value of any collateral and the ability of the guarantor to perform its obligations; and (iii) general factors relating to the PRC's economy, such as macroeconomic and monetary policies of the PRC government, interest rates, exchange rates and the legal and regulatory environment. Although the Bank has made provisions based on what it believes to be a prudent assessment of these factors and expectation of changes to those factors, the Bank cannot assure potential investors that its assessment and expectations concerning these factors will not differ from actual developments, or that the quality of its loan portfolio will not deteriorate due to the uncertainty of the future development of these factors and the fact that these factors are partially or entirely beyond its control. The occurrence of any of the foregoing factors will result in the Bank's allowance for impairment losses being inadequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may have a material and adverse effect on the Bank's financial condition and results of operations.

The Bank has a concentration of credit exposure to certain customers, and any deterioration in the loans to such customers may adversely affect its asset quality, financial condition and results of operations.

As at 30 June 2020, loans to the Group's ten largest single borrowers totalled RMB84.5 billion, representing 2.0 per cent. of its total loans and 12.9 per cent. of its net capital, both in compliance with requirements of the regulatory authorities. The Bank is a subsidiary of CITIC Group, and extends related party loans in the ordinary course of its business. Although its credit concentration is in accordance with the criteria set by government authorities, if any of the loans to such single or group borrower (including CITIC Group and its subsidiaries and other related parties) deteriorate, its asset quality will be adversely affected. In addition, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank then may need to make additional allowance, which may have a material and adverse effect on the Bank's asset quality, financial condition and results of operations.

The Bank has a concentration of credit exposure to certain industry sectors and regions, and any significant or extended downturn in the financial condition of any of these industry sectors or regions may adversely affect its financial condition and results of operations.

As at 31 December 2017, 2018 and 2019, and as at 30 June 2020, the Group's loans to the top five industry sectors amounted to RMB1,252.1 billion, RMB1,251.0 billion, RMB1,320.5 billion and RMB1,474.7 billion, respectively, representing 67.4 per cent., 66.5 per cent., 67.5 per cent. and 70.6 per cent., respectively, of its total corporate loan portfolio. Although the Bank has formulated credit policies with respect to extensions of credit to different industry sectors and has been persistently committed to risk management by diversifying its loan portfolio by industry sectors, the Bank still faces concentration risks in the foregoing industry sectors. If any of the industry sectors in which the Bank faces concentration risks experiences a significant downturn, whether as a result of general economic downturn or otherwise, its asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank's loans are mainly extended to borrowers concentrated in developed eastern and southern coastal regions of the PRC, such as the Bohai Rim, the Yangtze River Delta, the Pearl River Delta and the West Strait. As at 31 December 2017, 2018 and 2019, and as at 30 June 2020, the Group's loans extended to borrowers in the above regions represented 67.3 per cent., 68.0 per cent., 68.4 per cent. and 67.8 per cent., respectively, of its total loans. If any of the above regions in which the Bank faces concentration risks experiences a significant downturn, whether as a result of global economic environment change or otherwise, or in the event that the Bank cannot accurately evaluate or control the credit risks of borrowers located in any of the above regions, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank's real estate-related loans, loans to certain industries with excess capacity and loans to government financing platforms are subject to various risks, which may lead to a deterioration in the value of its loan portfolio.

Real estate related loans

The Bank's real estate-related loans consist of corporate loans extended to real estate customers, corporate loans with real estate as collateral and housing mortgage loans, which may be affected by the various risks related to the real estate market. As at 30 June 2020, the Group's corporate loans extended to real estate enterprises totalled RMB292.1 billion, representing 14.0 per cent. of the Group's total corporate loans and the Bank's housing mortgage loans totalled RMB815.2 billion.

In 2013, the Bank promulgated and implemented "The Policies on Stress Test Emergency Management for the Real Estate-Related Loans", which set out the departments responsible for stress tests and emergency management, and established a reporting system and protocols for responding to various types of emergencies which would arise from different stress scenarios and stress test outcomes.

In 2017, the Bank implemented risk monitoring indicators, and at the same time introduced the use of multiple methods including interest rate sensitivity gap analysis, net interest income sensitivity analysis and stress testing to measure various types of interest rate risks, and to analyse risks and project net interest income on a regular basis.

In 2020, the Bank established a complete risk limit system for the interest rate risk in the trading book, set limits such as value at risk, interest rate sensitivity and stop-loss at market value according to features of different products, and regularly assessed the interest rate risk in the trading book through stress testing and other tools, so as to control the interest rate risk in the trading book within its risk preference.

Despite the Bank's effort to keep the quality of its real estate-related loans stable, any significant adverse change, whether as a result of changes in macroeconomic environment, fierce volatility in the real estate market, changes in the national laws, regulatory and policy environment or other economic or regulatory changes, may materially and adversely affect the increment and quality of the Bank's real estate-related loans, and, thus, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Loans to certain industries with excess capacity

The Bank follows the PRC government's national policies aimed at restricting the over-development of certain industry sectors with excess capacity. The Bank monitors changes to the credit risks of loans extended to the industry sectors with excess capacity and restricts the loans extended thereto. The Bank's head office is responsible for approving any increase in credit extended to main industry sectors with excess capacity, such as the steel and cement sectors. The Bank does not extend credit to projects with excess capacity that are clearly prohibited by the PRC government, whether they are under construction or completed without due approval.

If the PRC government enhances its macroeconomic control over the industry sectors with excess capacity and the operating environment of the customers in the relevant industry sectors deteriorates, the Bank's loan quality may be materially and adversely affected.

A substantial portion of the Bank's loans are secured by collateral or guarantees. Any significant decline in the value of the collateral or deterioration of the financial condition of the guarantors or any failure by the Bank to enforce its rights as a creditor may adversely affect its financial condition and results of operations.

As at 30 June 2020, 55.5 per cent. of the Group's loans were secured by collateral. Any significant decline in the value of the collateral securing its loans, whether as a result of macroeconomic policy measures, general economic downturn or otherwise, may, should borrowers default on their loans, result in a decrease in the recovery rate and the Bank may need to make additional allowance for impairment losses. Moreover, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than other creditors. In addition, the procedures for liquidating or otherwise realising the value of collateral provided by the borrowers in the PRC can be protracted and/or ultimately unsuccessful, as the enforcement process in the PRC may be difficult for legal and practical reasons. Based on the foregoing reasons, the Bank may be unable to realise the expected value on collateral in a timely manner or at all. Further, the Bank deferred the repayment of principal and interest for enterprises in temporary difficulties caused by the COVID-19 pandemic or other factors, in order to relieve enterprises, especially micro, small and medium-sized ones, from the financing pressure of repayment of principal and interest during the pandemic. There is no assurance that such policy for deferment will not be extended as a result of the ongoing pandemic. If so, this may further adversely affect the Bank's financial condition and results of operations.

A certain portion of the Bank's loans are backed by guarantees provided by related parties of the borrowers or a third party, where there may be no collateral. As at 30 June 2020, 11.6 per cent. of the Group's loans were guaranteed. A significant deterioration in the financial condition of the guarantors may significantly limit the amounts the Bank may recover from them should the loans be in default by the borrowers. Moreover, the Bank is subject to the risk of guarantees being deemed invalid by a court if a guarantor fails to satisfy the requirements of the PRC laws under certain circumstances.

If the borrowers lose their repayment ability and the Bank fails to realise the full value on all or a portion of the collateral securing its loans or guarantees in a timely manner, the Bank's asset quality, financial condition and results of operations may be adversely affected.

The Bank faces risks in relation to its operating licences.

The PRC regulatory authorities currently require the segregation of the operations of banks, securities companies and insurance companies. Consequently, as a commercial bank, the Bank's business scope is under strict restriction and must be conducted in accordance with corresponding operating licences. The Bank's operating licences permit it to operate as a full-range commercial bank. However, if regulatory policies are amended in future, or the permitted business scope of financial institutions is amended or expanded, the Bank may not be able to obtain new operating licences in a timely manner, which may result in loss of business and which may therefore have a material and adverse effect on the Bank's competitiveness. Furthermore, in order to obtain new operating licences, the Bank may need to increase investment in research and development, operation management and infrastructures, which may in turn increase its operating costs.

The Bank's expanding range of products and services exposes it to new risks.

The Bank has experienced rapid expansion in recent years, and intends to continue to expand the range of its products and services. While contributing to its results of operations, expansion of the Bank's business activities also exposes it to a number of risks and challenges, including:

- the Bank may have insufficient experience in certain new business areas and, therefore, the Bank may not compete effectively in these areas;
- the Bank may fail to obtain regulatory approval for its new products or services;
- the Bank cannot assure potential investors that its new business activities will meet its expectations of profitability;
- the Bank may not be able to hire additional qualified personnel; and
- the Bank must continually enhance the capability of its risk management and upgrade its information technology ("**IT**") systems to support a broader range of business activities.

If the Bank is unable to achieve the expected results in new business areas due to any of the above or other factors, the Bank's business, results of operations and financial condition may be materially and adversely affected. In addition, if the Bank fails to promptly identify and expand into new business areas to meet increasing customer demand for certain products and services, the Bank may fail to maintain its market share or lose some of its existing customers.

The Bank has expanded its business to jurisdictions other than the PRC, which has increased the complexity of the risks that it faces.

The Bank has in recent years been implementing its internationalisation strategy and promoting its internationalised operations. The Bank's expansion into multiple jurisdictions exposes it to a new variety of regulatory and business risks, such as interest rate risks, credit risks, regulatory and compliance risks, reputational risks and operational risks unique to those foreign jurisdictions. Regulators of those jurisdictions have the power to bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third-party service providers, which could, among other things, result in the suspension or revocation of one or more of the Bank's licences or the imposition of cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions against the Bank.

Any failure to manage effectively the risks associated with the Bank's internationalised operations may have a material and adverse effect on the Bank's business, financial condition and results of operations.

The Bank is subject to credit risks associated with its off-balance sheet commitments and guarantees.

In the normal course of its business, the Bank makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including the provision of financial guarantees and letters of credit to guarantee the performance of its customers to third parties and the provision of bank acceptances. As at 30 June 2020, the Group's off-balance sheet credit-related commitments totalled RMB1,323.7 billion. The Bank is subject to credit risks on its commitments and guarantees because certain of its commitments and guarantees may need to be fulfilled as a result of non-performance by its customers. If the Bank is not able to compel its customers to perform their obligations or to obtain repayment from its customers in respect of these commitments and guarantees, the Bank's business, financial condition and results of operations may be materially and adversely affected.

The Bank is subject to risks associated with its derivative transactions.

The Bank enters into swaps, options and other derivative arrangements primarily for hedging purposes and, to a lesser extent, on behalf of its customers. The Bank is subject to market and operational risks associated with these arrangements. With respect to derivative transactions on behalf of its customers, the Bank is also exposed to the risk of its customers' failure to consummate transactions with the Bank. At present, the regulation of the PRC's derivative market is still under development and requires further improvement and the PRC courts lack experience in dealing with derivative-related cases, both of which factors increase the risks of the derivative transactions into which the Bank enters. As a result, the Bank enters into reverse transactions with certain counterparties so as to minimise the credit risks associated with its derivative transactions. However, the Bank cannot assure potential investors that the counterparties with high-risk exposure will perform under the contracts and pay the contractual amount upon maturity of the derivative contracts as agreed. Any significant losses the Bank may incur as a result of the derivative transactions the Bank enters into may have a material and adverse effect on the Bank's financial condition and results of operations.

The Bank's provisioning policies and loan classification may be different in certain respects from those applicable to banks in other countries.

The Bank determines the level of allowance for impairment losses, and recognises any related provisions made under International Accounting Standard 39 Financial Instruments ("**IAS 39**") or, since 1 January 2018, under IFRS 9, and the relevant loan impairment regulations of accounting standards of the PRC. Its provisioning policies may be different in certain respects from those of banks which do not assess loans under IAS 39 or IFRS 9. As a result, its allowance for impairment losses, as determined under IAS 39 or IFRS 9, may differ from those that would be reported if other accounting standards or policies were used.

The Bank also classifies its loans as "pass", "special mention", "substandard", "doubtful" and "loss" by using the five-category classification system according to the CBIRC's requirements. The five-category classification system is particular to the banking industry in the PRC, and may be different in certain respects from those used in certain other countries or regions, if any. As a result, the five-category classification system may be incomparable with other classification systems, and may reflect a different degree of risk than what would be reported in other countries.

Consolidated quarterly financial information of the Bank has not been audited or reviewed.

Where consolidated quarterly financial information is incorporated by reference into this Offering Circular, none of such consolidated quarterly financial information in respect of the three months ended 31 March and nine months ended 30 September of each financial year of the Bank has been audited or reviewed by any auditors and such financial information may not provide the same type or quality of information associated with information that has been audited or reviewed. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations, and must not place undue reliance on such financial information.

The Bank changed its provisioning practice as a result of the application of IFRS 9 which replaced IAS 39.

The Group from 1 January 2018 applied IFRS 9, which replaced International Accounting Standard 39 Financial Instruments. In accordance with the provisions for the transition from IAS 39, the Group retrospectively adjusted the retained earnings or other comprehensive income from 2018, in which the standard was adopted, without restating the comparative figures of the prior periods for the effect of the changes to classification, measurement and impairment of financial assets. IFRS 9 includes an accounting policy choice to retain the IAS 39 requirements for hedge accounting, and the Group has elected to retain the IAS 39 requirements.

The Bank cannot assure potential investors that its risk management and internal control policies and procedures can adequately control or protect it against credit, market, operational, liquidity and other risks.

The Bank has significantly revamped and enhanced its risk management and internal control policies and procedures in recent years, details of which are set out in the paragraphs headed "*Business – Risk Management*" and "*Business – Internal Control*". However, the Bank cannot assure potential investors that its risk management and internal control policies and procedures will adequately control or protect it against all credit, market, operational, liquidity and other risks. Moreover, the Bank cannot assure potential investors that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities and implementation of internal control policies and procedures are limited by the information, tools and technologies available to the Bank. Furthermore, its ability to control risks is constrained by the applicable PRC laws and regulations that restrict the types of financial instruments and investments it may hold. If the Bank is unable to implement effectively the enhanced risk management and internal control policies and procedures or if the Bank cannot achieve its intended results of such policies and procedures in a timely manner, the Bank's business, financial condition and results of operations may be materially and adversely affected.

The Bank's business is highly dependent on the proper functioning and improvement of its information technology infrastructure.

The Bank depends on its IT infrastructure to deliver services to its customers, manage risks, implement its internal control systems and manage and monitor its business operations.

The Bank backs up data within the same city as its key data processing systems and communication networks are based and has established a catastrophe back-up centre in a different city to ensure the continuous operation of its businesses in the event of catastrophes or a failure of its main systems. However, the Bank does not back up all systems on a real-time basis (whether within the same city or between cities) and the effectiveness of its back-up system depends on whether the Bank can successfully implement complex procedures with the support and cooperation of all units with the Bank. As a result, the Bank cannot assure potential investors that its business activities will not be disrupted if there is a partial or complete failure of any of its main IT systems or communication networks. Such failures could be caused by, among other things, software flaws, computer virus attacks, malicious programs or system upgrade problems.

In addition, despite the efforts of the Bank to ensure that all of its employees follow strictly implemented protocols with respect to the protection of customer information and operational data, the misappropriation of data by the Bank's employees or other people, any security breach caused by unauthorised access to its systems, or any destruction or loss or corruption of data, software, hardware or other computer equipment could have a material and adverse effect on the Bank's business, results of operations and financial condition.

The Bank strives to upgrade its IT systems on a timely and cost-effective basis. Any failure to successfully and timely improve or upgrade its IT systems may lead to malfunctioning or slowdown in its systems, which in turn may impact its ability to operate to meet customers' increasing demand for certain products and services, and the Bank's reputation, business, financial condition, results of operations and prospects may be materially and adversely affected.

The Bank may be involved in legal and other disputes from time to time arising out of its operations, and may face potential liabilities as a result.

The Bank is often involved in legal and other disputes for a variety of reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for the loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgments in any of the litigation in which the Bank is involved would be favourable to it, or that the Bank's litigation provisions are adequate to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes in the future, which may subject it to additional risks and losses. These disputes may relate to, among others, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the

Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and legal counsel's services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcomes of future or current disputes or proceedings will be favourable to the Bank. If the outcomes of disputes or proceedings are unfavourable to the Bank, the Bank's business, financial condition and results of operations may be materially and adversely affected.

The Bank may not detect and prevent fraud or other misconduct committed by its employees or third parties in a timely manner.

As at 30 June 2020, the Bank had 1,397 branches and sub-branches throughout the PRC. Although the Bank has continuously sought to enhance management and supervision of its branches and sub-branches (including putting in place policies on employee conduct), as the branches and sub-branches have relatively significant autonomy in their operations and management within the scope of authorisation, the Bank cannot assure potential investors that it can always timely detect or prevent operational or management problems within its branches and sub-branches.

Fraud or other misconduct committed by the Bank's current or past employees or third parties could subject it to financial losses and sanctions imposed by government authorities which may, at the same time, cause serious damage to its reputation. Such misconduct may include, among other things, fraud, allegations of corruption, theft, mishandling of customer deposits, misappropriation of customers' funds and misappropriation of bank funds. In addition, penalties or government sanctions may be imposed on the Bank as a result of its current or past employees' misconduct. If such misconduct occurs, the Bank may be required to cooperate with the relevant authorities in its investigations directed against any current or past employees or third parties and the Bank's reputation, results of operations and financial condition may be materially and adversely affected arising from the illegal actions taken or as a result of any negative publicity arising from such illegal actions by its current or past employees or by third parties.

The Bank may not be able to detect money laundering or other illegal or improper activities, which could expose it to additional liability and negatively affect its business.

The Bank is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and other jurisdictions where it has operations, which require it, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions.

The Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities and by terrorists, terrorist-related organisations and individuals. However, due to the fact that such policies and procedures are newly adopted, the Bank may not entirely eliminate instances where the Bank's facilities may be used by other parties to engage in money laundering and other illegal and improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government authorities to whom it reports in the various jurisdictions have the power and authority to impose fines and other penalties on it. In addition, money laundering or other illegal or improper activities conducted by the Bank's customers using its facilities may have a material and adverse effect on the Bank's business operations, financial condition and reputation.

The Bank may not be able to satisfy the regulatory requirements on capital adequacy ratios in the future.

As at 30 June 2020, the Group's core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 8.8 per cent., 10.3 per cent. and 12.6 per cent., respectively. Although these capital adequacy ratios were in compliance with the applicable PRC requirements, certain developments could affect the Bank's ability to satisfy applicable capital adequacy requirements in the future.

On 7 June 2012, the CBIRC promulgated the Measures for the Capital Management of Commercial Banks (for Trial Implementation) (商業銀行資本管理辦法(試行)) (the "**Capital Management Regulations**"), which came into effect on 1 January 2013, and implemented Basel III in the PRC. The Capital Management Regulations clarified and refined the categorisations and methods of measurement in respect of the capital instruments of commercial banks. According to the Capital Management Regulations, the regulatory requirements on the capital adequacy ratio of commercial banks shall cover the requirements on the minimum capital, reserve capital and counter-cyclical capital, supplementary capital for systemically important banks, as well as second pillar-capital, which shall be reached by commercial banks by the end of 2018. In order to smoothly transition to the full adoption of the Capital Management Regulations, the CBIRC promulgated the Circular on Issues Concerning the Implementation of the Provisional Administrative Measures on Capital Management of Commercial Banks in Transitional Period (中國銀監會關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知) (the "**CBIRC Transitional Circular**") on 30 November 2012, pursuant to which commercial banks shall reach the minimum capital requirement by 1 January 2013. Within the transitional period for reaching required targets, the Capital Management Regulations and the CBIRC Transitional Circular require commercial banks to formulate and implement feasible plans for reaching capital adequacy ratio targets step by step, and submit the same to the CBIRC for approval. Given the requirement of capital adequacy ratio under the Capital Management Regulations, the Bank's capital adequacy may be substantially affected. Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank's compliance with capital adequacy ratios, and it is possible that the Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy.

In addition, certain regulatory developments may affect the Bank's ability to maintain compliance with capital adequacy requirements, including the raising of minimum capital adequacy ratios by the CBIRC and the changes in calculations of capital adequacy ratios by the CBIRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of the CBIRC.

There can be no assurance that the Bank will be able to meet these requirements in the future at all times and any failure to meet these requirements may have a material and adverse effect on the Bank's business, financial condition and results of operations.

In order to support its steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. The Bank's capital-raising ability may be restricted by the Bank's future business, financial condition and results of operations, the Bank's credit rating, necessary regulatory approvals and overall market conditions, including the PRC's and global economic, political and other conditions at the time of capital raising.

The Bank is subject to various risks in relation to the PRC and overseas regulatory requirements.

The Bank is subject to periodic inspections and examinations relating to compliance with the relevant laws, regulations and guidelines by PRC regulatory authorities, including the MOF, the PBOC, the CBIRC, SAMR, SAFE and the tax authorities at different levels, as well as by overseas regulatory authorities for its overseas operations. The Bank cannot, however, assure potential investors that future examinations by PRC or other regulatory authorities would not result in fines and penalties that could materially and adversely affect its reputation, business, results of operations and financial condition.

From time to time, the NAO conducts audits on state-controlled enterprises and publishes the audit results. If the Bank is found to have any material misconduct or non-compliance in future NAO audits, it will be subject to fines and other administrative penalties, which could materially and adversely affect its reputation, business and prospects.

The Bank's overseas branches, subsidiaries and representative offices are subject to various overseas regulatory requirements as well as periodic inspections, examinations and inquiries conducted by overseas regulatory authorities in respect of its compliance with such requirements. The Bank cannot assure potential investors that it will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times. The Bank may be subject to sanctions, fines or other penalties in the future as a result of any non-compliance with laws and regulations. If any such sanction, fine or other penalty is imposed on the Bank for failing to comply with applicable regulatory requirements or guidelines, the Bank's business, financial condition, results of operations and reputation may be materially and adversely affected.

In addition, the PRC, United States, European Union, United Kingdom, Hong Kong, United Nations Security Council and other applicable jurisdictions currently impose various economic sanctions. These sanctions are intended to address a variety of policy concerns, among other things, denying certain countries, and certain individuals and entities, the ability to support international terrorism and to pursue weapons of mass destruction and missile programmes. For example, the United States currently impose various economic sanctions administered by the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**") which apply only to U.S. persons and, in certain cases, to foreign subsidiaries of U.S. persons or to transactions involving certain items subject to U.S. jurisdiction. OFAC prohibits such persons from directly or indirectly investing or otherwise doing business in or with certain countries (such as the Crimea region, Cuba, Iran, North Korea and Syria) and with certain persons or businesses that have been specially designated by OFAC or other U.S. government agencies. Other governments and international or regional organisations also administer similar economic sanctions. Further, sanctions laws are subject to change, sometimes with little advance notice. If the Group is in the future determined to have engaged in any prohibited transactions or otherwise violated applicable sanctions regulations, the Group could be subject to penalties and sanctions and its reputation and ability to conduct future business in the relevant jurisdictions may be materially and adversely affected.

The uncertainties in the global economy, the global financial markets and, in particular, in the PRC could materially and adversely affect the financial condition and results of operations of the Bank and the Group.

Emerging from the peak of the global financial crisis, some countries started to withdraw the stimulus packages previously executed and implement more moderate monetary policies. The PRC government withdrew its economic stimulus plan implemented during the financial crisis and returned to its normal policy direction. In addition, the PRC government has implemented stricter controlling measures on the real estate market, regulated local government financing vehicles, cancelled export tax refund policies for certain commodities and resumed reform of the Renminbi exchange rate. In addition, China's economic growth may slow down due to weakened exports as well as uncertainty caused by the trade-war between the United States and the PRC. Starting in March 2018, the United States imposed tariffs on steel and aluminium imports from China, and later, on 6 July 2018, the United States imposed 25 per cent. tariffs on U.S.$34 billion worth of Chinese goods as part of President Donald Trump's tariffs policy. In turn, the PRC responded with similarly sized tariffs on United States' products. Significant further tariffs have been imposed by both countries since then. In January 2020, China and the United States signed the first stage of trade deal, which, among other things, included a rollback by the United States of some existing tariffs. However, significant tariffs remain, and it is unclear how much economic relief the first stage of the trade deal will offer. In July 2020, the United States imposed sanctions on certain Chinese companies from purchasing U.S. technology and products without a special licence. In August 2020, the United States further determined that certain Chinese firms are allegedly owned or controlled by the Chinese military. It remains unclear whether the United States will impose further sanctions on more Chinese companies in the future.

Currently, the employment, credit and property market conditions of developed economies are still unstable. Coupled with ongoing concerns on the sovereign debt crisis in Europe and the U.S., the prolonged period of uncertainty around the exit of the United Kingdom from the European Union ("**Brexit**"), political gridlock in the United States over government spending and debt levels and the consequences for economic growth and investor confidence in the United States, and the "tapering" of the U.S. Federal Reserve's quantitative easing programme, the status of the global economy is uncertain. On 31 January 2020, the United Kingdom officially exited the European Union following a UK-EU Withdrawal Agreement signed in October 2019. The United Kingdom and the European Union will have a transition period until 31 December 2020 to negotiate, among others, trade agreements in details. Given the lack of precedent and uncertainty of the negotiation, the effect of Brexit remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market. There is also considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including the PRC. While some governments worldwide are implementing or may implement "exit strategies" (in the form of reduced government spending, higher interest rates or otherwise) with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties.

Furthermore, the world economy faces the uncertain impact of the outbreak of COVID-19 in the PRC and globally since December 2019. The number of reported cases of COVID-19 worldwide, as well as the number of reported deaths as a consequence of COVID-19 worldwide, significantly exceed those observed during the Severe Acute Respiratory Syndrome ("**SARS**") epidemic that occurred from November 2002 to

July 2003. In March 2020, the World Health Organisation declared COVID-19 to be a global pandemic. The recent outbreak of COVID-19 and its spread worldwide is expected to introduce more uncertainty as it remains unknown whether the ongoing situation will improve and whether any effective containment of the spread of COVID-19 can be achieved, which may in turn result in protracted volatility in international markets and/or a global recession as a consequence of disruptions to travel and retail segments, tourism, and manufacturing supply chains. In particular, in February and March 2020 the COVID-19 outbreak caused stock markets worldwide to lose significant value and impacted economic activity in Asia and worldwide. A number of governments revised GDP growth forecasts for 2020 downward in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the outbreak of COVID-19 may cause a prolonged global economic crisis or recession. Any of these factors could have a material adverse effect on the Group's financial condition and results of operations. For further details, please see "*Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in the PRC and globally, may have a material and adverse effect on the Bank's business operations, financial condition and results of operations*".

The uncertainties in the global and the PRC's economies may adversely affect the Bank's financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of NPLs, allowance for impairment losses and write-offs, all of which would adversely affect its results of operations and financial condition;

- the increased regulation and supervision of the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase compliance costs, which may adversely affect its business operations;

- the value of the Bank's investments in the debt securities issued by overseas governments and financial institutions may significantly decline, which may adversely affect its financial condition;

- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and

- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

There can be no assurance that the PRC's economy or the global economy will maintain sustainable growth. If further economic downturn occurs or continues, the business, results of operations and financial condition of the Bank could be materially and adversely affected.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in the PRC and globally, may have a material and adverse effect on the Bank's business operations, financial condition and results of operations.

Any future force majeure events, such as the occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, or H1N1 Flu or variants thereof, or COVID-19 pandemic, may materially and adversely affect the Bank's business, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Bank and have adverse effects on the quality of its assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. In particular, the on-going COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic, and there is no assurance that such measures will, or will continue to be, effective. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic have significantly disrupted the global economy and global markets. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities, which may persist for some time. While lock-down and stay-at-home policies previously imposed in many countries and regions are being gradually lifted or softened while the spread of COVID-19 slows down, there is still significant uncertainty surrounding its impact on economic activity and employment. A number of governments have revised GDP growth forecasts downward for 2020 in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the outbreak of COVID-19 may cause a prolonged global economic crisis or recession, which may in turn adversely affect the Bank's business. For the six months ended 30 June 2020, the Group's income from bank card fees decreased, as a result of declined consumption willingness of customers due to the impact of the pandemic. There is no assurance that the outbreak will not lead to decreased demand for services the Bank provides; nor is there assurance that the outbreak's adverse impact on the PRC economy and the Bank's customers will not adversely affect the level of non-performing loans. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to combat the challenges arising from the COVID-19 pandemic. For example, in June 2020, the State Council of PRC called on financial institutions to offer RMB1.5 trillion in profit for the year ended 31 December 2020 for the benefit of enterprises in response to the outbreak of COVID-19, through offering lower interest rates, cutting fees, deferring loan repayments, and granting more unsecured loans to small businesses. There is no assurance that this proposal will not be implemented in the future; nor is there assurance that this implementation will not have a material adverse impact on the Bank's business, financial condition and results of operations.

Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and, in turn, the Bank's business. There can be no guarantee that any future occurrence of natural disasters or outbreaks of avian influenza, SARS, H1N1 Flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreaks of avian influenza, SARS, H1N1 Flu, COVID-19 or other epidemics, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on its business, financial condition and results of operations.

The Bank may not be able to hire, train or retain a sufficient number of qualified employees.

Most aspects of the Bank's business are dependent on the quality of its professional employees. The Bank devotes considerable resources to recruitment and staff-training. However, the Bank faces increased competition in recruiting and retaining these individuals, as other banks are competing for the same pool of potential employees. The loss of members of the Bank's senior management team or professional staff may materially and adversely affect its business, customer base and results of operations.

RISKS RELATING TO THE BANKING INDUSTRY IN THE PRC

The Bank's business and operations are highly regulated, and its business, financial condition, results of operations and future prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.

The Bank's business and operations are directly affected by changes in the PRC's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. Since its establishment as the primary banking industry regulator assuming the majority of the bank regulatory functions from the PBOC in 2003, the CBIRC has promulgated a series of banking regulations and guidelines. The banking regulatory regime in the PRC is currently undergoing significant changes, most of which are applicable to the Bank and may result in additional costs or restrictions on its activities. For instance, in March 2011, the CBIRC, the PBOC and the NDRC jointly issued a notice stipulating the cancellation of 34 service fees classified under 11 categories of domestic commercial banks effective from 1 July 2011. On 14 February 2014, the NDRC and the CBIRC jointly issued Measures for the Administration of the Service Prices of Commercial Banks (the "**Measure**"), which came into effect on 1 August 2014. According to the Measure, the prices of basic banking services that are widely used by clients and have significant influence on the PRC's economic development shall be subject to the guidance or determination of the government. The NDRC and the CBIRC also jointly issued a circular on Printing and Distributing the Catalogue of Government-guided and Government-determined Prices for Services Provided by Commercial Banks (the "**Catalogue**").

According to the Catalogue, the prices of basic financial services provided by commercial banks for bank clients shall be subject to government guided-prices and government pricing. Such basic financial services include part of commercial banks' service items, such as wire transfer, remittance by cash, encashment and bills, and specific charge items and charging standards shall be subject to the Catalogue. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations, nor can the Bank assure investors that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant impact on its business, financial condition and results of operations.

The Bank's business and operations are directly affected by changes in the PRC's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations, nor can there be any assurance that the Bank will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Bank's activities, which may have a material and adverse effect on the Bank's financial condition and results of operations.

The Bank is subject to changes in interest rates and other market risks, and the Bank's ability to hedge market risks is limited.

As with most commercial banks, the Bank's results of operations depend to a great extent on its net interest income. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Group's net interest income represented 63.4 per cent., 68.1 per cent., 67.7 per cent., 66.0 per cent. and 63.5 per cent. of its operating income, respectively. Interest rates in the PRC historically were highly regulated but have been gradually liberalised in recent years. Under current PBOC regulations, commercial banks in the PRC cannot set interest rates above 150 per cent. of the relevant PBOC benchmark rate for RMB-denominated deposits. There also used to be a restriction with respect to the lower limit of the interest rates for RMB-denominated deposits. However, the PBOC promulgated the Notice on Further Promoting the Market-oriented Reform of Interest Rates on 19 July 2013, eliminating such restriction on RMB-denominated loans, except for residential mortgage loans. As at 20 August 2020, the ceiling on private lending interest rate has been significantly lowered to 15.4 per cent. from the previous ceiling, which was set between 24 per cent. and 36 per cent. There is no assurance that the ceiling on private lending interest rates will not be further lowered in the future, nor is there assurance that such adjustments in interest rate caps will not have a material adverse impact on the Bank's business, financial condition and results of operations.

The PBOC may further liberalise the existing interest rate restrictions on RMB-denominated loans and deposits. If the existing regulations were substantially liberalised or eliminated, competition in the PRC's banking industry would likely intensify as the PRC's commercial banks seek to offer more attractive rates to customers. Further liberalisation by the PBOC would result in the narrowing of the spread in the average interest rates between RMB-denominated loans and RMB-denominated deposits, thereby materially and adversely affecting the Bank's results of operations. Furthermore, the Bank cannot assure investors that it will be able to adjust the composition of its asset and liability portfolios and its pricing mechanism to enable it to effectively respond to further liberalisation of interest rates.

In recent years, the PBOC has adjusted the benchmark rates several times. Any adjustments by the PBOC in the benchmark interest rates on loans or deposits or changes in market interest rates may adversely affect the Bank's financial condition and results of operations in different ways. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets differently from the average cost on its interest-bearing liabilities, and therefore may narrow its net interest margin and reduce its net interest income, which may materially and adversely affect its results of operations and financial condition. In addition, an increase in interest rates may result in increases in the finance costs of the Bank's customers and thus reduce overall demand for loans, and, accordingly, adversely affect the growth of the Bank's loan portfolio, as well as increase the risk of customer default. As a result, changes in interest rates may adversely affect the Bank's net interest income, financial condition and results of operations.

The Bank also undertakes trading and investment activities involving certain financial instruments both in the PRC and abroad. The Bank's income from these activities is subject to volatilities caused by, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates generally have an adverse effect on the value of the Bank's fixed rate securities portfolio, which may materially and adversely affect its results of operations and financial condition. Furthermore, as the derivatives market has yet to mature in the PRC, there are limited risk management tools available to enable the Bank to reduce market risks.

The growth rate of the PRC's banking industry may not be sustainable.

The Bank expects the banking industry in the PRC to continue to grow as a result of anticipated growth in the PRC economy, increases in household income, further social welfare reforms, demographic changes and the opening of the PRC's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of the PRC's economic growth, the PRC's implementation of its commitment to WTO accession, the development of its domestic capital and insurance markets and the ongoing reform of its social welfare system will affect the PRC's banking industry. In addition, there can be no assurance that the banking industry in the PRC is free from systemic risks. Consequently, there can be no assurance that the growth and development of the PRC's banking industry will be sustainable.

The effectiveness of the Bank's credit risk management is affected by the quality and scope of information available in the PRC.

The information infrastructure in the PRC is relatively undeveloped. PRC national individual and corporate credit information databases developed by the PBOC commenced operation in 2006.

However, due to their short operational history, they can only provide limited information. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases become more fully developed, the Bank has to rely on other publicly available resources and its internal resources, which are not as extensive or as effective as a unified nationwide credit information system. As a result, the Bank's ability to manage effectively its credit risk and, in turn, its asset quality, is limited, and its financial condition and results of operations may be materially and adversely affected.

The Bank faces intense competition in the PRC's banking industry as well as competition from alternative corporate financing and investment channels.

The Bank faces competition from other commercial banks and financial institutions in all of its principal areas of business. It competes primarily with other large commercial banks, nationwide joint stock commercial banks, city commercial banks and foreign banks in the PRC.

Additionally, following the removal of regulatory restrictions on its geographical presence, customer base and operating licence in the PRC in December 2006 as part of the PRC's World Trade Organisation accession commitments, the Bank has experienced increased competition from foreign invested commercial banks. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement, the Mainland and Macau Closer Economic Partnership Arrangement and the Cross-Straits Economic Co-operation Framework Agreement, which permit Hong Kong, Macau and Taiwan banks to operate in the PRC, have also increased competition in the PRC's banking industry.

Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including, among others, with respect to interest rates and non-interest-based products and services, which are changing the basis on which the Bank competes with other banks for customers.

The Bank competes with many of its competitors for substantially the same loan, deposit and fee-based business customers. Such competition may adversely affect the Bank's business and future prospects by, for example:

- reducing its market share in its principal products and services;
- slowing down the growth of its loan or deposit portfolios and other products and services;

- decreasing its interest income or increasing its interest expenses, thereby reducing its net interest income;
- reducing its fee and commission income;
- increasing its non-interest expenses, such as marketing expenses;
- adversely affecting its asset quality; and
- increasing competition for senior management and qualified professional personnel.

The Bank may also face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of its customers choose alternative financing to fund their capital needs, the Bank's business, financial condition and results of operations may be adversely affected.

Moreover, the Bank may face competition from other forms of investment alternatives as the PRC capital markets continue to develop. As the PRC equity and bond markets continue to develop and become more viable and attractive investment alternatives, the Bank's deposit customers may elect to transfer their funds into equity and bond investments, which may reduce its deposit base and adversely affect its business, financial condition and results of operations.

The PRC regulators have implemented measures relating to lending to small and medium-sized enterprises ("SMEs"), and the Bank may be subject to future regulatory changes.

The CBIRC has promulgated a series of measures, including the Guidance on Issues Relevant to Establishing Special Agencies for Small Business Lending by Banks (《關於銀行建立小企業金融服務專營機構的指導意見》) and the Notice on Further Supporting Commercial Banks' Improvement of Financial Services to Small Enterprises (《關於支持商業銀行進一步改進小企業金融服務的通知》), to encourage banking institutions to implement the PRC government's macroeconomic policies, and, in particular, to proactively support continued healthy economic growth by increasing lending activities to SMEs while effectively controlling risk.

In addition, the PBOC has implemented a variety of measures to reduce the cost of borrowing for companies that have been hit hard by the outbreak of COVID-19, including lowering loan interest rates. On 21 January 2020, the POBC, the MOF and the CBIRC jointly issued the Notice of Further Strengthening Financial Support for the Prevention and Control of the Epidemic of Novel Coronavirus Pneumonia (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》) to encourage strengthening credit support in key fields such as manufacturing, small and micro-sized enterprises, and private enterprises, and to restrict financial institutions to limit, rescind or reduce loans of small and micro-sized enterprises which have prospects of development but temporarily experience difficulty because of the pandemic. On 14 February 2020, the CBIRC issued the Notice of Further Effectively Providing Financial Services concerning the Epidemic Prevention and Control (《關於進一步做好疫情防控金融服務的通知》) to encourage banks to actively support small and micro-sized enterprises that encounter temporary difficulties due to the impact of COVID-19, but still have sound development prospects by actively adopting measures such as adjusting the schedule of repayment and payment of interest, moderately reducing the interest rate of loans, and improving the connection between loan extension and renewal. In February 2020, the PBOC reduced the one-year loan prime rate from 4.15 per cent. to 4.05 per cent., and the five-year rate from 4.80 per cent. to 4.75 per cent., which was the first reduction since October 2019. However, SMEs are more vulnerable to fluctuations in the macroeconomy compared with large enterprises, due to relatively limited capital, management or other resources required to cope with the adverse impact of major economic or regulatory changes. In addition, SMEs may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may be significantly increased if its SME clients are affected by economic or regulatory changes, which could materially and adversely affect the Group's business, results of operations and financial condition.

There can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to SMEs, will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations.

Certain PRC regulations limit the Bank's ability to diversify its investments, and, as a result, a decrease in the value of a particular type of investment may have a material adverse effect on its financial condition and results of operations.

As a result of the current PRC regulatory restrictions, substantially all of the Bank's RMB-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as PRC governmental bonds, bonds issued by PRC policy banks and bonds issued on the inter-bank market. These restrictions to a certain extent limit the Bank's ability to diversify its investment portfolio and to seek returns on its investments when compared with those of banks in other countries or to manage the Bank's liquidity in the same manner as banks in other countries. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of its RMB-denominated investment securities. For instance, any deterioration of the financial condition of commercial banks in the PRC would increase the risks associated with holding their bonds and subordinated notes. A decrease in the value of any of these types of investments could have a material adverse effect on the Bank's financial condition and results of operations.

RISKS RELATING TO THE PRC

The PRC's economic, political and social conditions, as well as government policies, could affect the Bank's business, financial condition and results of operations.

A substantial majority of the Bank's businesses, assets and operations are located in the PRC. Accordingly, the Bank's financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The PRC's economy was previously a planned economy, and a substantial portion of productive assets in the PRC is still owned by the PRC government. The government also exercises significant control over the PRC's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, the Bank may not benefit from certain such measures. The PRC government has the power to implement macroeconomic control measures affecting the PRC's economy. The government has implemented various measures in an effort to increase or control the growth rate and adjust the structure of certain industries. For example, in response to a decreased growth rate in part as a result of the global financial crisis and economic slowdown, in September 2008, the PRC government began to implement a series of macroeconomic measures including the moderate loosening of monetary policy, which included announcing an economic stimulus package and reducing benchmark interest rates. Since 2010, the PRC government has begun to implement a number of macroeconomic measures including the moderate tightening of monetary policies to curb inflation in the PRC. The PRC government may continue to implement such policies to control inflation, which may in turn affect the Bank's ability to make loans to its customers. As a result, the Bank's financial condition, results of operations and prospects may be materially and adversely affected.

Certain of the PRC government's macroeconomic measures may materially and adversely affect the Bank's financial condition, results of operations and asset quality. For example, the decreases in the PBOC benchmark interest rates in the second half of 2008 have resulted in the narrowing of the Bank's net interest margin and a decrease in its net interest income in 2009 compared with 2008, which adversely affected its profitability. In addition, the PRC government has imposed macroeconomic control measures aimed at tempering the real estate market. In November 2009, the PRC government shortened the period in which real estate developers make payments for land premiums and increased the relevant down payment requirement on real estate developers. In April 2010, the PRC government raised the down payment requirements for people buying second homes to a minimum of 50 per cent. of the property value from 40 per cent., and this threshold was further raised to 60 per cent. in January 2011. Down payment requirements on first homes of more than 90 square metres rose to a minimum of 30 per cent. of the property value from 20 per cent. In addition, the lowest interest rate that commercial banks are permitted to charge in respect of second-home residential mortgage loans has increased from 90 per cent. to 110 per cent. of the applicable PBOC benchmark rate. In early 2011, individual housing property tax was introduced in Shanghai and Chongqing on a trial basis. The PRC government's measures to cool down the housing market may adversely affect the growth and quality of the Bank's loans related to real estate, and could also have a significant impact on its business, financial condition and results of operations.

Furthermore, on 22 December 2009, the PBOC, the CBIRC and the CSRC issued the "Guiding Opinions on Further Doing a Good Job in Supporting the Restructuring and Revitalisation of Key Industries and Curbing Overcapacity in Some Industries through Financial Services", according to which all banking financial institutions shall actively co-operate with the national industrial policy and financial control requirements, credit granting shall reflect the principle of "differential treatments with encouragements and discouragements", and the integrated management of assets and liabilities shall better serve the purpose of promoting the scientific development of the economy. These requirements may adversely affect the condition of certain of the Bank's loans to the relevant industries. Further, the PRC regulators have also implemented a variety of measures relating to lending to SMEs, which may materially and adversely affect the Bank's business, financial condition and results of operations. For further details, please see "*The PRC regulators have implemented measures relating to lending to small and medium enterprises ("SMEs") and the Bank may be subject to future regulatory changes*".

The PRC has been one of the world's fastest growing economies, as measured by GDP growth, in recent years. However, the PRC may not be able to sustain such a growth rate. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's financial condition, results of operations and business prospects may be materially and adversely affected.

The PRC legal system could limit the legal protection available to investors.

The Bank is incorporated under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with economic matters such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations may continue to evolve, may be subject to different interpretations and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protections that are available to investors and can adversely affect the value of an investment.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and the Bank's management.

The Bank is a company incorporated under the laws of the PRC, and a substantial majority of its business, assets and operations are located in the PRC. In addition, a majority of its directors, supervisors and executive officers reside in the PRC, and substantially all of the assets of such directors, supervisors and executive officers are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon the Bank or those persons within the PRC.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of many jurisdictions, including Japan, the United States and the United Kingdom. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The Bank is subject to the PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.

The Bank receives a substantial majority of its revenue in Renminbi, which is currently not a freely convertible currency. A portion of this revenue must be converted into other currencies in order to meet the Bank's foreign currency obligations. For example, the Bank needs to obtain foreign currency to make payments of declared dividends, if any, on its H shares.

Under the PRC's existing foreign exchange regulations, by complying with certain procedural requirements, the Bank will be able to undertake current account foreign exchange transactions, including payment of dividends without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. In this case, the Bank may not be able to pay dividends in foreign currencies to holders of its H shares.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2.1 per cent. against the U.S. dollar. In August 2008, the PRC revised the PRC Foreign Exchange Administration Regulations (中華人民共和國外匯管理條例) to promote the reform of its exchange rate regime. In June 2010, the PBOC decided to further reform the PRC's exchange rate system in order to make it more flexible. Given domestic and overseas economic developments, the PBOC decided to further adjust the Renminbi exchange rate regime in April 2012 and March 2014 to enhance the flexibility of the Renminbi exchange rate. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of the Bank's foreign currency-denominated assets. Conversely, any devaluation of the Renminbi may adversely affect the value of the Bank's H shares in foreign currency terms. During the first half of 2020, the exchange rate of Renminbi against the U.S. dollar depreciated by approximately 1.5 per cent. Although the Bank seeks to reduce its exchange rate risk through currency derivatives or otherwise, it cannot assure investors that it will be able to reduce its foreign currency risk exposure relating to its foreign currency-dominated assets. In addition, there are limited instruments available for the Bank to reduce its foreign currency risk exposure at reasonable cost. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of the Bank's customers, particularly those deriving substantial income from exporting products or engaging in related businesses, and in turn affect their ability to service their obligations to the Bank. Furthermore, the Bank is also currently required to obtain the approval of the SAFE before converting significant sums in foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

The Bank may be subject to the filing requirements in relation to issue of Notes from respective authorities within the PRC.

On 12 January 2017, the PBOC issued the Circular of the People's Bank of China on the Macro-prudence Management of Cross-border Financing in Full Aperture (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) (the "**2017 PBOC Circular**"), which applies to cross-border financing activities by companies and financial institutions (including banks) incorporated in the mainland. According to the 2017 PBOC Circular, 27 mainland banks (including the Bank) are required to make filings with the PBOC in respect of their offshore bond offerings.

In connection with the establishment of the Programme or any issuance by an overseas branch, the Bank has not made and does not intend to make any filing with the PBOC under the 2017 PBOC Circular. To the extent and if the Bank or any of its branches which are located within the PRC issues Notes under the Programme or any overseas bank intends to remit any proceeds from any Note issue under the Programme to the mainland, the Bank will make the requisite filing with the PBOC in compliance with the 2017 PBOC Circular.

The PBOC has yet to publish any detailed implementation rules and guidance on the 2017 PBOC Circular. The aforementioned views are based on the Bank's PRC legal advisors' understanding and interpretation of the 2017 PBOC Circular. There is no assurance that PBOC would take the same view or the 2017 PBOC Circular would not be interpreted in a different way. If the PBOC takes a different view or any change will be made to such regulations, the Bank will comply with the requirements of such and any other regulatory authorities.

RISKS RELATING TO THE NOTES

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be or used as "benchmarks" are the subject of recent national, international regulatory and other regulatory guidance and proposals for reform. Some of these reforms are already effective, whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Note linked to or referencing such a benchmark.

More broadly, any of the international, national or other proposals for reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate ("**LIBOR**") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, or result in other consequences in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark; or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if an interbank offered rate (such as LIBOR or EURIBOR) or other relevant reference rate (which could include, without limitation, any mid-swap rate), and/or any page on which such benchmark may be published (or any successor service) becomes unavailable, or if any Paying Agent, Calculation Agent, the Issuer or other party is no longer permitted lawfully to calculate interest on any Notes by reference to such benchmark. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Benchmark Rate (both as defined in the Terms and Conditions of the Notes), with or without the application of an Adjustment Spread (as defined in the Terms and Conditions of the Notes). Adjustment Spread is: either a spread (which may be positive, negative or zero) or a formula or methodology for calculating a spread, which in each case is to be applied to the relevant Successor Rate or the relevant Alternative Benchmark Rate (as applicable), and is the spread, formula or methodology which (i) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body (as defined in the Terms and Conditions of the Notes); or (ii) in the case of a Successor Rate for which no such recommendation has been made, or option provided, or in the case of an Alternative Benchmark Rate, is the spread, formula or methodology which the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, determines to be appropriate as a result of the replacement of the Reference Rate with the Successor Rate or Alternative Benchmark Rate (as the case may be). There is no guarantee that any Adjustment Spread will be determined or applied. If no Adjustment Spread is determined, a Successor Rate or Alternative Benchmark Rate may nonetheless be used to determine the Rate of Interest.

The use of any such Successor Rate or Alternative Benchmark Rate or, if applied, Adjustment Spread to determine the Rate of Interest may result in Notes linked to or referencing the initial inter-bank offered rate or other relevant reference rate performing differently (including paying a lower Rate of Interest) than they would do if the initial inter-bank offered rate or other relevant reference rate (as applicable) were to continue to apply in its current form.

Under these fallback arrangements, the Issuer will use its reasonable endeavours to appoint an Independent Adviser (as defined in the Terms and Conditions of the Notes) to determine the Successor Rate or Alternative Benchmark Rate (as applicable), no later than three Business Days (as defined in the Terms and Conditions of the Notes) prior to the relevant Interest Determination Date (the "**IA Determination Cut-off Date**"), but in the event that the Issuer is unable to appoint an Independent Adviser, or such Independent Adviser and the Issuer cannot agree upon, or cannot select a Successor Rate or Alternative Benchmark Rate (as applicable) prior to the relevant IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may determine the relevant Successor Rate or Alternative Benchmark Rate (as applicable). There can be no assurance that such Successor Rate or Alternative Benchmark Rate (as applicable) determined by the Issuer will be set at a level which is on terms commercially acceptable to all Noteholders.

In certain circumstances, the ultimate fallback for the purposes of calculation of Rate of Interest for a particular Interest Accrual Period may result in the Rate of Interest for the last preceding Interest Accrual Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Benchmark Rate, any determinations that may need to be made by the Issuer with the involvement of an Independent Adviser entails a risk that the relevant fallback provisions may not operate as intended at the relevant time. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by Benchmarks Regulation (EU) 2016/1011 or any other international or national reforms, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

Potential investors should not place undue reliance on the financial information incorporated by reference that is not audited.

This Offering Circular incorporates the most recently published unaudited but reviewed interim consolidated financial statements of the Bank published from time to time after the date of this Offering Circular in each case together with any review reports prepared in connection therewith, as well as the most recently published unaudited and unreviewed quarterly financial information, published subsequent to the most recently published consolidated financial statements of the Bank. The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the Hong Kong Stock Exchange.

The quarterly interim financial information has not been and will not be audited or reviewed by the Bank's independent auditors, and was and will be prepared in accordance with IAS 34. The quarterly interim financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The half-yearly or quarterly interim financial information should not be taken as an indication of the expected financial condition or results of operations of the Group for the relevant full financial year.

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement to this Offering Circular or any Pricing Supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Certain Series of Notes may be complex financial instruments. Sophisticated investors generally do not purchase complex financial instruments as standalone investments, but rather purchase such complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in such Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how such Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes are subordinated to all secured debt of each of the Issuer and the Bank.

Each Tranche of Notes will be unsecured and will rank at least equally with all other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by law and which rank ahead of the holders of the Notes) that each of the Issuer and the Bank has issued or may issue. Payments under the Notes are effectively subordinated to all secured debt of each of the Issuer and the Bank to the extent of the value of the assets securing such debt.

As a result of such security interests given to the Issuer's and the Bank's secured lenders, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Issuer and the Bank, the affected assets of the Issuer and the Bank may not be used to pay the Noteholders until after:

- all secured claims against the affected entity have been fully paid; and

- if the affected entity is a subsidiary of the Bank, all other claims against such subsidiary, including trade payables, have been fully paid.

In the event that the Issuer (where the Issuer is an overseas branch of the Bank) failed to fully perform its obligations under the Notes, performance by the Bank of such obligations may be subject to registration with or verification by the PRC government authorities.

According to the Law of the People's Republic of China on Commercial Banks (中華人民共和國商業銀行法) and the circular issued by the PBOC dated 7 August 1995, named "Reply on the Issues Regarding the Civil Liabilities of the Branches of Commercial Banks" (關於對商業銀行分支機構民事責任問題的覆函), in the event that a branch of a commercial bank fails to fully perform its obligations to the extent of the assets of the branch, such commercial bank shall fulfil such obligations to the extent that the branch has failed to perform them.

Therefore, in the event the Issuer (where the Issuer is an overseas branch of the Bank) is unable to or does not perform its obligations under the Notes, the Bank will assume all obligations of the Issuer with respect to the payments under the Notes. The remittance of funds outside the PRC by the Bank in order to perform these obligations may be subject to registration with or verification by the SAFE.

An active trading market for the Notes may not develop.

The Dealers are not obliged to make a market in any Tranche of Notes and any such market-making, if commenced, may be discontinued at any time at the sole discretion of the Dealers. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. In addition, even if a market develops for the Notes, it may not be liquid and the holders of the Notes may encounter difficulties in selling those Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales regardless of the performance of the Bank. In addition, to the extent that the Bank is not able to obtain or maintain a listing and quotation of any Tranche of Notes that are listed on the Hong Kong Stock Exchange or any other stock exchange, the sustainability and liquidity of such Notes may be adversely affected.

There could be conflicts of interest arising out of the different roles played by the Bank and its subsidiaries, and the Bank's other activities may affect the value of the Notes.

The Bank's subsidiary is appointed as an Arranger and Dealer for the Programme. The Bank or its subsidiaries may also issue other competing financial products which may affect the value of the Notes. Investors should also note that potential and actual conflicts of interest may arise from the different roles played by the Bank and its subsidiaries in connection with the Notes, and the economic interests in each role may be adverse to the investors' interests in the Notes. Although the Bank has internal control policies and procedures to minimise any potential conflict of interest, the Bank owes no duty to investors to avoid such conflicts.

Investors shall be aware of the effect of change of law.

The Terms and Conditions of the Notes are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law, or the laws as specified in the Pricing Supplement, or administrative practices after the date of this Offering Circular.

Credit Ratings may not reflect all risks, and any credit rating of the Notes may be downgraded or withdrawn.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. As at the date of this Offering Circular, the Bank has been assigned a rating of Baa2 by Moody's, BBB+ by S&P and BBB by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Each Tranche of Notes may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer to perform its obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. The Issuer is not obligated to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

Investors shall pay attention to any modifications and waivers.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series. The Terms and Conditions of the Notes also provide that the parties to the fiscal agency agreement dated 28 December 2020 entered into in relation to the Notes between the Bank (on behalf of itself and on behalf of its branches), Citicorp International Limited as Fiscal Agent, CMU Lodging and Paying Agent and the other Agents named therein (the "**Fiscal Agency Agreement**") may agree to modify any provision thereof, but the Bank shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or to comply with mandatory provisions of the law.

The Notes may be represented by Global Notes, and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream or lodged with the CMU (each of Euroclear, Clearstream and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. In relation to any issue of Notes in registered form, definitive Certificates will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business. The Pricing Supplement may provide that, if definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination, and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

The Notes are redeemable in the event of certain withholding taxes being applicable

There can be no assurance as to whether or not payments on the Notes may be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within a Relevant Jurisdiction. Where such withholding or deduction is made by the Issuer by or within the PRC up to and including the rate applicable on the Issue Date (the "**Applicable Rate**"), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by Noteholders and Couponholders equals the amounts which would otherwise have been received by them had no such withholding or deduction been required. In the event the Issuer is required to make a deduction or withholding in respect of (i) PRC tax in excess of the Applicable Rate and/or (ii) any tax in a Relevant Jurisdiction other than the PRC, the Issuer is required pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, but can also choose to redeem the Notes at their Early Redemption Amount (as defined in the Terms and Conditions of the Notes) (together with interest accrued to the date fixed for redemption) if the conditions described in the Terms and Conditions of the Notes are satisfied. If the relevant Issuer redeems the Notes prior to their maturity dates, investors may not receive the same economic benefits they would have received had they held the Notes to maturity, and they may not be able to reinvest the proceeds they receive in a redemption in similar securities. In addition, such Issuer's ability to redeem the Notes may reduce the market price of the Notes.

There are risks related to the structure of a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes will generally not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor would generally not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed, and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes.

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to the Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly Paid Notes.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable Rate Notes with a multiplier or other leverage factor.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of those Notes.

Fixed/Floating Rate Notes.

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then-prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

Notes issued at a substantial discount or premium.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared with conventional interest-bearing securities with comparable maturities.

If the Issuer does not satisfy its obligations under the Notes, Noteholders' remedies will be limited.

Payment of principal of the Notes may be accelerated only in the event of certain events involving the Issuer's bankruptcy, winding-up or dissolution or similar events or otherwise if certain conditions have been satisfied. See "*Terms and Conditions of the Notes – Events of Default*".

Investment in the Notes is subject to risks related to the market generally.

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

An active secondary market in respect of the Notes may never be established or may be illiquid, and this would adversely affect the value at which an investor could sell his Notes.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest (where applicable) on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes, and/or (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest and/or principal than expected, or no interest or principal.

Interest rate risks.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Gains on the transfer of the Notes may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law which took effect on 1 January 2008 and was later amended on 24 February 2017 and 29 December 2018, and its implementation rules which took effect on 1 January 2008 and were later amended on 23 April 2019, any gain realised on the transfer of the Notes by non-resident enterprise holders may be subject to enterprise income tax if such gain is regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether the gain realised from the transfer of the Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law and its implementation rules. According to the arrangement between the PRC and Hong Kong for the avoidance of double taxation, residents of Hong Kong, including enterprise holders and individual holders, will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Notes.

Therefore, if non-resident enterprise holders are required to pay PRC income tax on gains on the transfer of the Notes (such enterprise income tax is currently levied at the rate of 10 per cent. of the gross proceeds, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-resident enterprise holders of the Notes reside that reduces or exempts the relevant tax), the value of their investment in the Notes may be materially and adversely affected.

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

Notes denominated in RMB (the "**RMB Notes**") may be issued under the Programme. A description of risks which may be relevant to an investor in RMB Notes is set out below.

Renminbi is not freely convertible, and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of RMB Notes.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been a significant reduction in control by the PRC government in recent years, particularly over trade transactions involving the import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC government.

Although the PBOC has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC government will liberalise control over cross-border remittances of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite the Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under RMB Notes.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of RMB Notes and the Issuer's ability to source Renminbi outside the PRC to service such RMB Notes.

As a result of the restrictions imposed by the PRC government on cross border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBOC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (each, a "**RMB Clearing Bank**") in a number of financial centres and cities, including but not limited to Hong Kong, have established the Cross-Border InterBank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC, although the PBOC has gradually allowed participating banks to access the PRC's onshore interbank market for the purchase and sale of Renminbi. The RMB Clearing Banks only have limited access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions, and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting the availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the RMB Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its RMB Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Remittance of proceeds in Renminbi into or out of the PRC.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC government will continue to gradually liberalise control over cross-border Renminbi remittances in the future, that the PRC government will not impose any interim or long-term restrictions on capital inflow or outflow which may restrict cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the RMB Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Investment in RMB Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The PBOC has in recent years implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to RMB Notes unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the RMB Notes in that foreign currency will decline.

Gains on the transfer of the RMB Notes may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of RMB Notes by non-PRC resident enterprises or individual Noteholders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. The PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the PRC-sourced gains derived by such non-PRC resident enterprises from the transfer of RMB Notes, but its implementation rules have reduced the EIT rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of 20 per cent. of the PRC-sourced gains derived by such non-PRC resident individual Noteholders from the transfer of RMB Notes.

However, uncertainty remains as to whether the gain realised from the transfer of RMB Notes by non-PRC resident enterprises or individual Noteholders would be treated as income derived from sources within the PRC and thus become subject to EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong for avoidance of double taxation, Noteholders who are residents of Hong Kong, including enterprise Noteholders and individual Noteholders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if enterprise or individual resident Noteholders which are non-PRC residents are required to pay PRC income tax on gains derived from the transfer of RMB Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual Noteholders of RMB Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in RMB Notes may be materially and adversely affected.

Investment in the RMB Notes is subject to interest rate risks.

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As RMB Notes may carry a fixed interest rate, the trading price of the RMB Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the RMB Notes propose to sell their RMB Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments with respect to the RMB Notes may only be made in the manner designated in the RMB Notes.

All payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by global certificates held with the common depositary for Clearstream Banking S.A. and Euroclear Bank S.A./N.V. or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which an RMB Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the RMB Notes are represented by global certificates lodged with a sub-custodian for or registered with the CMU Service, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (iii) for so long as the RMB Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which an RMB Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement, the net proceeds of each issue of the Notes will be applied by the Issuer for working capital and general corporate purposes.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

BEARER NOTES

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a Temporary Bearer Global Note or, if so specified in the applicable Pricing Supplement, a Permanent Bearer Global Note which, in either case, will be delivered (a) prior to the original issue date of the Tranche to either (i) a common depositary (the "**Common Depositary**") for, Euroclear and Clearstream or (ii) a sub-custodian for the CMU Service or (b) at such other time, on such other date, to such other person and in such other place in accordance with the Fiscal Agency Agreement.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes, subject as provided by such Temporary Bearer Global Note, will be made upon presentation and (when no further payment is due in respect of such Temporary Bearer Global Note) surrender of such Temporary Bearer Global Note. On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge to the holder) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) if so specified in the applicable Pricing Supplement, for definitive Bearer Notes of the same Series **provided that** if the applicable Pricing Supplement specifies that TEFRA D rules apply, there shall have been certification (in a form to be provided) with respect to such nominal amount submitted for such exchange dated no earlier than the Exchange Date to the effect that the beneficial owners of interests in such Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations. The CMU Service may require that any such exchange for a Permanent Bearer Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made upon presentation and (when no further payment is due in respect of such Permanent Bearer Global Note) surrender of such Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

A Permanent Bearer Global Note will be exchangeable (free of charge to the holder), on or after the Exchange Date, in whole but not, except as provided by such Permanent Bearer Global Note, in part, for definitive Bearer Notes (a) if such Permanent Bearer Global Note is held on behalf of Euroclear, Clearstream, the CMU or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (b) if principal in respect of such Permanent Bearer Global Note is not paid when due, by the holder giving notice to the Paying Agent or CMU Lodging and Paying Agent (as applicable) of its election for such exchange. For these purposes, "**Exchange Date**" means a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of such Permanent Bearer Global Note when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Paying Agent or CMU Lodging and Paying Agent (as applicable) is located and, except in the case of exchange pursuant to (a) above, in the cities in which Euroclear and Clearstream and the CMU (as applicable) or, if relevant, the Alternative Clearing System, are located.

The following legend will appear on all Bearer Notes and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE.“

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream or the CMU Service, as the case may be.

REGISTERED NOTES

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold outside the United States, will initially be represented by a global note in registered form (a "**Registered Global Note**", together with any Bearer Global Note, the "**Global Notes**").

Registered Global Notes will be deposited with a Common Depositary for and registered in the name of a common nominee of, Euroclear, Clearstream and/or deposited with a sub-custodian for the CMU Service (if applicable) or such other person in such other place in accordance with the Fiscal Agency Agreement.

Payments of principal, interest or any other amount in respect of the Registered Notes in global form will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Registered Global Notes. None of the Issuer, the Bank, the Fiscal Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(b)(ii) of the Terms and Conditions of the Notes) immediately preceding the due date for payment in the manner provided in that Condition.

TRANSFER OF INTERESTS

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream and the CMU Service, in each case to the extent applicable.

GENERAL

For so long as a Global Note or a Global Certificate is lodged with the CMU, (i) the CMU Lodging and Paying Agent shall pay any amounts of principal and interest due on a Global Note or a Global Certificate to the person(s) notified by the CMU to the CMU Lodging and Paying Agent as being the person(s) for whose account(s) interest(s) in that Global Note or Global certificate is credited and the CMU Lodging and Paying Agent shall not endorse that Global Note or Global Certificate and (ii) the records of the CMU (in the absence of manifest error) shall be conclusive evidence of the identity of the persons to whose accounts interests in that Global Note or Global Certificate are credited and the principal amount(s) of the interest(s) and of the Tranche of Notes represented by that Global Note or evidenced by that Global Certificate. Save in the case of manifest error, the CMU Lodging and Paying Agent shall be entitled to rely on any CMU Instrument Position Report or any other statement by the CMU of the identities and interests of persons credited with interests in that Global Note or Global Certificate. If, and for so long as, a Global

Note or Global Certificate is not lodged with the CMU, the Paying Agent and the other Agents shall make all payments in respect of that Global Note or Global Certificate against presentation (and, in the case of its redemption in full, surrender) of that Global Note or Global Certificate and (unless that Global Note or Global Certificate is surrendered) shall on behalf of the relevant Issuer endorse, or procure the endorsement of, a memorandum of each such payment in the relevant schedule to that Global Note or Global Certificate and return it, or cause it to be returned, to its bearer or holder.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. If principal in respect of any Notes represented by a Global Note is not paid when due (but subject as provided below), the holder thereof may from time to time elect that Direct Rights under the provisions of (and as defined in) the deed of covenant (as supplemented and/or amended, the "**Deed of Covenant**") executed by the Bank as of 28 December 2020 shall come into effect in respect of a nominal amount of Notes up to the aggregate nominal amount in respect of which such failure to pay principal has occurred. Such election shall be made by notice to and presentation of the Global Note to, the Paying Agent or the CMU Lodging and Paying Agent (as applicable) for reduction of the nominal amount of Notes represented by such Global Note by such amount as may be stated in such notice. Upon each such notice being given, such Global Note shall become void to the extent of the nominal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

[**PRIIPs REGULATION – PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**")]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPS Regulation.]

[**MiFID II product governance/Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")]/[MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time, (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) [and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]][1]

Pricing Supplement dated [●]

[*ISSUER*]

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

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$5,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated 28 December 2020 [and the supplement to it dated [●]] ([together,] the "**Offering Circular**"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. [Copies of the Offering Circular may be obtained from [*address*]].

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular.

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1 For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[*The following language applies where the relevant Series of Notes will be listed on the Hong Kong Stock Exchange:*

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, "**Professional Investors**") only.

The Stock Exchange of Hong Kong Limited ("HKSE") has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the HKSE on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

1 . . .	Issuer:	[*Name of the Issuer*]
2 . . .	[(i)] Series Number:	[●]
	[(ii) Tranche Number (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)]	[●]
3 . . .	Specified Currency or Currencies:	[●]
4 . . .	Aggregate Nominal Amount:	
	[(i)] Series:	[●]
	[(ii) Tranche:	[●]]
5 . . .	[(i)] Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	[(ii) Net proceeds:	[●] *(Required only for listed issues)*]
	[(iii) Use of proceeds:	[●]]
6 . . .	(i) Specified Denominations:	[●][(1)]
	(ii) Calculation Amount[(4)]:	[●]

7 . . .	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
8 . . .	Maturity Date:	[specify date *(for Fixed Rate Notes)* or *(for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][(2)]
9 . . .	Interest Basis:	[[●] per cent. Fixed Rate] [*specify reference rate*] +/-[●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10 . .	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]
11 . .	Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12 . .	Put/Call Options:	[Put] [Call] [(further particulars specified below)]
13 . .	Status of the Notes:	Senior Notes
14 . .	Listing:	[[●]/Other (*specify*)/None]
15 . .	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16 . .	Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year[(3)] [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[(4)]

	(iv)	Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate]*
	(v)	Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual (ICMA/ISDA)/Other] *(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise)*
	(vi)	Determination Date(s) (Condition 5(j)):	[●] in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*(5)
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
17 . .		Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	Interest Period Date(s):	[Not Applicable/specify dates] *(Not applicable unless different from Interest Payment Date)*
	(iv)	Business Day Convention:	[Floating Rate Note Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
	(v)	Business Centre(s) (Condition 5(j)):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ ISDA Determination/other *(give details)*]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s):	[●]
	(viii)	Screen Rate Determination (Condition 5(b)(iii)):	
		– Reference Rate:	[●]
		– Interest Determination Date:	*[[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]*
		– Relevant Screen Page:	[●]

	(ix) ISDA Determination (Condition 5(b)(iii)):	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	(x) Margin(s):	[+/-] [●] per cent. per annum
	(xi) Minimum Rate of Interest:	[●] per cent. per annum
	(xii) Maximum Rate of Interest:	[●] per cent. per annum
	(xiii) Day Count Fraction (Condition 5(j)):	[●]
	(xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18 . .	Zero Coupon Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Amortisation Yield (Condition 6(b)):	[●] per cent. per annum
	(ii) Day Count Fraction (Condition 5(j)):	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
19 . .	Index Linked Interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Index/Formula:	*[Give or annex details]*
	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Interest Period(s):	[●]
	(v) Specified Interest Payment Dates:	[●]
	(vi) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]

	(vii)	Business Centre(s) (Condition 5(j)):	[●]
	(viii)	Minimum Rate of Interest:	[●] per cent. per annum
	(ix)	Maximum Rate of Interest:	[●] per cent. per annum
	(x)	Day Count Fraction (Condition 5(j)):	[●]
20 . .		Dual Currency Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/Method of calculating Rate of Exchange:	[*Give details*]
	(ii)	Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
	(v)	Day Count Fraction (Condition 5(j)):	[●]

PROVISIONS RELATING TO REDEMPTION

21 . .		Call Option	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period:	[●]
22 . .		Put Option	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	Notice period:	[●]

23 . .	Final Redemption Amount of each Note	[●] per Calculation Amount
24 . .	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10 and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25 . .	Form of Notes:	[Bearer Notes/Registered Notes] *[Delete as appropriate]* [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time] [Permanent Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Permanent Global Certificate] [Permanent Global Certificate exchangeable for Definitive Certificates on [●] days' notice/at any time][(6)] [(7)]
26 . .	Financial Centre(s) (Condition 7)) or other special provisions relating to payment dates:	[Not Applicable/*Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iv) and 19(vii) relate*]
27 . .	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28 . .	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]

29 . .	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
30 . .	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
31 . .	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32 . .	Other terms or special conditions:	[Not Applicable/*give details*](7)

DISTRIBUTION

33 . .	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
34 . .	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
35 . .	U.S. Selling Restrictions	[*Specify the applicable category of U.S. Selling Restrictions/*Not Applicable]
36 . .	Prohibition of Sales to EEA and UK Retail Investors:	[Applicable/Not Applicable] (If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)
37 . .	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

38 . .	ISIN Code:	[●]
39 . .	Common Code:	[●]
40 . .	CMU Instrument Number:	[●]
41 . .	CUSIP Number:	[●]
42 . .	Legal Entity Identifier of the Bank:	[●]
43 . .	Any clearing system(s) other than Euroclear, Clearstream, the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
44 . .	Delivery:	Delivery [against/free of] payment
45 . .	Additional Paying Agents (if any):	[●]

GENERAL

46 . .	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of [●], producing a sum of (for Notes not denominated in US dollars):	[Not Applicable/U.S.$[●]]
47 . .	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
48 . .	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]
49 . .	(i) Date of corporate approval(s) for the issuance of the Notes	[●]
	(ii) Date of any regulatory approval for the issuance of the Notes	[●]
50 . .	[Ratings:	The Notes to be issued have been rated [●] by [●]]

[**LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme of China CITIC Bank Corporation Limited (中信銀行股份有限公司).]

[**STABILISATION**

In connection with the issue of any Tranche of Notes, one or more of the Managers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no obligation on the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) to do this. Such stabilisation if commenced may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.]

[**MATERIAL ADVERSE CHANGE STATEMENT**

[Except as disclosed in this document, there/There][(8)] has been no significant change in the financial or trading position of the Issuer or of the Group since *[insert date of last audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer or of the Group since *[insert date of last published annual accounts]*.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: ______________________________

Duly authorised

Notes:

(1) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000".

(2) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

(3) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day."

(4) For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.05 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.01, HK$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

(5) Only to be completed for an issue where the Day Count Fraction is Actual/Actual-ICMA.

(6) If the Global Note/Certificate is exchangeable for Definitive Notes/Certificates at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.

(7) Only applicable if permitted by the rules of the relevant clearing system. The limited circumstances in which exchange is permitted are set out under the section "Summary of Provisions Relating to Notes while Represented by Global Notes or Global Certificates – Exchange" in the Offering Circular.

(8) If full terms and conditions are to be used, please add the following here: "The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary". The first set of bracketed words is to be deleted where there is a Permanent Global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(9) If any change is disclosed in the Pricing Supplement, it may require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are part of a Series (as defined below) of Notes issued by China CITIC Bank Corporation Limited (中信銀行股份有限公司) (the "**Bank**") or the relevant branch of the Bank as specified hereon (the "**Issuer**") and are issued pursuant to a fiscal agency agreement (as amended, restated or supplemented as at the Issue Date, the "**Fiscal Agency Agreement**") dated 28 December 2020 which has been entered into in relation to the Notes between the Bank (on behalf of itself and on behalf of its branches), Citicorp International Limited as fiscal agent, CMU lodging and paying agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended, restated or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 28 December 2020 executed by the Bank (on behalf of itself and on behalf of its branches) in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agent(s) and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**" (such Fiscal Agent, CMU Lodging and Paying Agent, Paying Agents, Registrar and Transfer Agent(s) being together referred to as the "**Agents**"). For the purposes of these terms and conditions (the "**Conditions**"), all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be references to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during usual business hours at the specified offices of the Paying Agents.

The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects.

1 FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note (together with an Index Linked Interest Note, an "**Index Linked Note**"), an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest Basis and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

(a) **No Exchange of Notes**: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes**: Subject to Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and, to the extent reasonably expected to be prejudicial to the interests of the Noteholders, the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes**: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to a Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within five business days of receipt of a duly completed form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any other Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant other Transfer Agent (as the case may be).

(e) **Transfers Free of Charge**: Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Issuer, the Registrar or the relevant other Transfer Agent may require) in respect of taxes or charges.

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days ending on (and including) any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6, (iii) after any such Note has been put by the relevant Noteholder or (iv) during the period of seven days ending on (and including) any Record Date.

3 STATUS

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 COVENANTS

(a) **Rating Maintenance**: If specified hereon, for so long as any Note remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders, each of the Bank and the Issuer undertakes that it shall use its reasonable endeavours to maintain a rating on the Notes by any one Rating Agency.

(b) **Regulatory Undertakings**: Each of the Bank and the Issuer undertakes to:

(i) to the extent applicable, provide or cause to be provided to the NDRC a notification of the requisite information and documents within the time frame prescribed after the relevant Issue Date of the Notes in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules, reports, certificates, approvals or guidelines as issued by the NDRC from time to time;

(ii) to the extent applicable, submit or cause to be submitted to the PBOC the requisite information and documents within the time frame prescribed in accordance with the Circular on Relevant Matters about the Macro-Prudential Management of Cross-Border Financing in Full Aperture (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) issued by the PBOC and which came into effect on 11 January 2017 and any implementation rules as issued by the PBOC from time to time;

(iii) to the extent that it is required by the CBIRC, PBOC and/or SAFE, submit or cause to be submitted to the CBIRC, PBOC and/or SAFE the requisite information and documents within the time frame prescribed; and

(iv) comply with all applicable PRC laws and regulations in connection with the Notes.

In these Conditions:

"**CBIRC**" means China Banking and Insurance Regulatory Commission or its relevant local counterpart;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**NDRC**" means the National Development and Reform Commission of the People's Republic of China;

"**PBOC**" means the People's Bank of China;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China, which for the purpose of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan);

"**Public External Indebtedness**" means any indebtedness of the Bank (or, for the purposes of Condition 10, any Subsidiary), or any guarantee or indemnity by the Bank of indebtedness, for money borrowed which (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placement) and (ii) has an original maturity in excess of 365 days;

"**Rating Agency**" means any one of (a) Standard & Poor's Rating Services, and its successors ("**S&P**"), (b) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**"), (c) Fitch Ratings and its successors ("**Fitch**"), and (d) if one or more of S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, any or other internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P, Moody's or Fitch or any combination thereof, as the case may be, rating agency;

"**SAFE**" means the State Administration of Foreign Exchange of the PRC or its local counterparts;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

5 INTEREST AND OTHER CALCULATIONS

(a) **Interest on Fixed Rate Notes**: Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) ***Interest Payment Dates***: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, "**Interest Payment Date**" shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) ***Business Day Convention***: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) ***Rate of Interest for Floating Rate Notes***: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated hereon) the Margin, if any. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(1) the Floating Rate Option is as specified hereon;

(2) the Designated Maturity is a period specified hereon; and

(3) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(1) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or, in the case of CNH HIBOR, 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time), on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR, EURIBOR, HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon;

(2) If the Relevant Screen Page is not available or if sub-paragraph (B)(1)(I) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (B)(1)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate and, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, in the case of CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(3) If paragraph (B)(2) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, in the case of CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate

is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, in the case of CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) ***Benchmark Discontinuation***

If the Issuer determines that a Benchmark Event has occurred (or will occur on or prior to the Interest Determination Date relating to the next succeeding Interest Accrual Period), when the Rate of Interest (or any relevant component part thereof) remains to be determined by reference to the Reference Rate, then the following provisions shall apply:

(A) The Issuer shall use its reasonable endeavours to appoint an Independent Adviser for the determination (with the Issuer's agreement) of a Successor Rate or, alternatively, if the Independent Adviser and the Issuer agree that there is no Successor Rate, an alternative rate (the "**Alternative Benchmark Rate**") and, in either case, an alternative screen page or source (the "**Alternative Relevant Screen Page**") and the applicable Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(b)(iv)(F)) all by no later than three (3) Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Accrual Period (the "**Interest Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Accrual Periods (subject to the subsequent operation of this Condition 5(b)(iv)).

In the absence of bad faith or fraud, neither the Issuer nor any Independent Adviser shall have any liability whatsoever to the Fiscal Agent, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it pursuant to this Condition 5(b)(iv);

(B) The Alternative Benchmark Rate shall be such alternative benchmark or screen rate as the Independent Adviser and the Issuer acting in good faith agree has replaced the Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if the Independent Adviser and the Issuer agree that there is no such rate, such other rate as the Independent Adviser and the Issuer acting in good faith agree is most comparable to the Reference Rate, and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate;

(C) If the Issuer is unable to appoint an Independent Adviser, or if the Independent Adviser and the Issuer cannot agree upon, or cannot select a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page on or prior to the Interest Determination Cut-off Date in accordance with sub-paragraph (A) and (C) above, then the Issuer (acting in good faith and in a commercially reasonable manner) may determine which (if any) alternative benchmark or screen rate has replaced the Reference Rate in customary market usage for purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if it determines on or prior to the Interest Determination Cut-off Date that there is no such alternative benchmark or screen rate, which rate (if any) is most comparable to the Reference Rate, and the Alternative Benchmark Rate shall be the rate so determined by the Issuer and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate; provided, however, that if this sub-paragraph (C) applies and the Issuer is unable or unwilling to determine an Alternative Benchmark Rate and Alternative Relevant Screen Page prior to the Interest Determination Cut-off Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be determined using the Reference Rate applicable to the first Interest Accrual Period. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iv);

(D) If a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page are determined in accordance with the preceding provisions, such Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page (in each case as adjusted by the applicable Adjustment Spread determined as provided in sub-paragraph (E) below) shall subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 5(b)(iv));

(E) If a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page are determined in accordance with the preceding provisions, the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, shall determine (i) the Adjustment Spread to be applied to the Successor Rate or Alternative Benchmark Rate (as applicable) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, and such Adjustment Spread shall be applied to the Successor Rate or Alternative Benchmark Rate for each subsequent determination of the Rate of Interest and Interest Amount(s) (or a component part thereof) by reference to such Successor Rate or Alternative Benchmark Rate;

(F) If a Successor Rate or an Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread are determined in accordance with the above provisions, the Independent Adviser (with the Issuer's agreement) or, failing which, the Issuer, may also specify changes to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, as are necessary to ensure the proper operation (having regard to prevailing market practice, if any) of the Successor Rate, the Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"), which changes shall (subject to the subsequent operation of this Condition 5(b)(iv)) apply to the Notes for all future Interest Accrual Periods, without any requirement for the consent or approval of Noteholders, and vary these Conditions and/or the Fiscal Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 5(b)(iv)(F), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading;

(G) The Issuer shall promptly following the determination of any Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page and Adjustment Spread give notice thereof and of any Benchmark Amendments pursuant to sub-paragraph (F) above to the Calculation Agent, the Fiscal Agent and the Noteholders in accordance with Condition 14 (*Notices*); and

(H) No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Fiscal Agent a certificate signed by an authorised signatory of the Issuer:

(i) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Benchmark Rate and, (z) the relevant Adjustment Spread and/or the specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5(b)(iv); and

(ii) certifying that the relevant Benchmark Amendments are necessary to ensure the proper operation (having regard to prevailing market practice, if any) of such relevant Successor Rate, Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread.

The Fiscal Agent shall display such certificate at its offices, for inspection by the Noteholders at all reasonable times during normal business hours.

The Successor Rate or Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination thereof) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the other Paying Agents, the Noteholders, the Receiptholders and the Couponholders.

(v) ***Rate of Interest for Index Linked Interest Notes***: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and interest will accrue by reference to an index or formula as specified hereon.

(c) **Zero Coupon Notes**: Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes**: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined by the Calculation Agent in the manner specified hereon.

(e) **Partly Paid Notes**: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding**:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum Rate of Interest, Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) **Calculations**: The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

In the case of Notes represented by a Global Note or Global Certificate, interest shall be calculated in respect of any period by applying the Rate of Interest to the total aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**: The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of

Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Noteholders.

(j) **Definitions**: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Adjustment Spread**" means either a spread (which may be positive, negative or zero) or a formula or methodology for calculating a spread, which in each case is to be applied to the relevant Successor Rate or the relevant Alternative Benchmark Rate (as applicable), and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) in the case of a Successor Rate for which no such recommendation has been made, or option provided, or in the case of an Alternative Benchmark Rate, is the spread, formula or methodology which the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, determines to be appropriate as a result of the replacement of the Reference Rate with the Successor Rate or Alternative Benchmark Rate (as the case may be).

"**Benchmark Event**" means:

(i) the Reference Rate has ceased to be published for a period of at least five Business Days; or

(ii) the making of a public statement by the administrator of the Reference Rate that it has ceased, or will cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or

(iii) the making of a public statement by the supervisor of the administrator of the Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) the making of a public statement by the supervisor of the administrator of the Reference Rate that means that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in circumstances where the same shall be applicable to the Notes; or

(v) the making of a public statement by the supervisor of the administrator of the Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of its underlying market, in circumstances where the same shall be applicable to the Notes; or

(vi) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable), provided that in the case of paragraphs (ii) to (v) above, the Benchmark Event shall occur on:

(vii) in the case of (ii) above, the date of the cessation of the publication of the Reference Rate;

(viii) in the case of (iii) above, the discontinuation of the Reference Rate;

(ix) in the case of (iv) above, the date on which the Reference Rate is prohibited from use or becomes subject to restrictions or adverse consequences (as applicable); or

(x) in the case of (v) above, the date on which the Reference Rate is deemed no longer to be representative,

and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (vii), (viii), (ix) or (x) above, as applicable);

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Notes denominated in euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of Notes denominated in a currency and/or one or more Business Centres specified hereon, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Calculation Amount**" means the amount by reference to which the Interest Amount, Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount are calculated as specified hereon.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30.

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30.

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(viii) if "**Actual/Actual – ICMA**" is specified hereon,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(1) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Periods normally ending in any year; and

(2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser of recognised standing with relevant experience in the international capital markets, in each case appointed by the Issuer at its own expense.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling, Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is not Sterling, euro, Hong Kong dollars, Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR provided that in this definition, "**Business Day**" shall mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London or Hong Kong (as the case may be).

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

"**ISDA Benchmarks Supplement**" means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified hereon)) published by the International Swaps and Derivatives Association, Inc.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon and, if specified as such hereon, as supplemented by the ISDA Benchmarks Supplement.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of the Notes and that is either specified or calculated in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Renminbi in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"**Reference Rate**" means the rate specified as such hereon.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"**Successor Rate**" means the reference rate that is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note is outstanding (as defined in the Fiscal Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or, if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 REDEMPTION, PURCHASE AND OPTIONS

(a) **Redemption by Instalments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within Condition 6(a)(i), its final Instalment Amount.

(b) **Early Redemption:**

(i) ***Zero Coupon Notes:***

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) (as applicable) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) ***Other Notes***: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if

(i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdictions (as defined below), or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent:

(A) a certificate signed by a director or an authorised signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 6(c), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(c).

(d) **Redemption at the Option of the Issuer**: If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders**: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any other Transfer Agent at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any other Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Fiscal Agency Agreement) without the prior consent of the Issuer.

(f) **No other redemption**: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a), (c), (d) and (e) above.

(g) **Partly Paid Notes**: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.

(h) **Purchases**: The Issuer, the Bank and its Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Such Notes may, at the option of the Issuer, be held, reissued, resold or surrendered to the Fiscal Agent for cancellation. The Notes so purchased, while held by or on behalf of the Issuer, the Bank or any Subsidiary of the Bank, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 11.

(i) **Cancellation**: All Notes purchased by or on behalf of the Issuer, the Bank or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 PAYMENTS AND TALONS

(a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank; and

(ii) in the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7, "**bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System or, in the case of Renminbi, in Hong Kong.

(b) **Registered Notes**:

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(iii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Notes denominated in Renminbi) and fifteenth (in the case of Notes denominated in a currency other than Renminbi) day before the due date for payment thereof (the "Record Date") and in the manner provided in Condition 7(b)(iii) below.

(iii) Payments of principal or interest, as the case may be, on each Registered Note shall be made:

(x) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank; and

(y) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(iii), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

*So long as the Notes are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payment, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

Payment of interest or principal by the CMU Lodging and Paying Agent to the person for whose account a relevant interest in the Global Certificate is credited as being held by the CMU Service at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the relevant CMU rules) or any other relevant notification by the CMU Service shall discharge the obligations of the Issuer in respect of that payment.

(c) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Fiscal Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in Hong Kong or any other place of payment, but without prejudice to the provisions of Condition 8 and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents**: The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar and the Transfer Agents appointed under the Fiscal Agency Agreement and any Calculation Agent(s) appointed in respect of any Notes act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other

Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, in each case in accordance with the Fiscal Agency Agreement, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes outside the United Kingdom, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require, (vi) a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Notes are issued in definitive form, for so long as the Notes are listed on the Singapore Exchange Securities Trading Limited or any successor thereto (the "**SGX-ST**") and the rules of the SGX-ST so require and (vii) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons**:

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days**: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in Hong Kong and the relevant place of presentation (if presentation and/or surrender of such Note, Receipt or Coupon is required) in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

   (i) (in the case of a payment in a currency other than euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

   (ii) (in the case of a payment in Renminbi) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; or

   (iii) (in the case of a payment in euro) which is a TARGET Business Day.

8 TAXATION

Subject as provided below, all payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within a Relevant Jurisdiction, unless such withholding or deduction is required by law of any Relevant Jurisdiction.

Where such withholding or deduction is made by the Issuer by or within the PRC up to and including the rate applicable on the Issue Date (the "**Applicable Rate**"), the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by Noteholders and Couponholders equals the amounts which would otherwise have been received by them had no such withholding or deduction been required.

In the event the Issuer is required to make a deduction or withholding in respect of (i) PRC tax in excess of the Applicable Rate and/or (ii) any tax in a Relevant Jurisdiction other than the PRC, the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) **Lawful avoidance of withholding**: to, or to a third party on behalf of, a holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(c) **Presentation more than 30 days after the Relevant Date**: where the relevant Note or Coupon or Receipt is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

In these Conditions:

"**Relevant Date**" in respect of any Note, Receipt or Coupon means whichever is the later of (a) the date on which payment in question first becomes due and (b) if the full amount payable has not been paid on or prior to such due date, the date on which the full amount has been paid and notice to that effect has been given to the Noteholders; and

"**Relevant Jurisdiction**" means the PRC, and if the Issuer is a branch of the Bank, the jurisdiction where that branch is located, or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "interest" shall be deemed to include any additional amounts that may be payable under this Condition 8.

For the avoidance of doubt, the Issuer's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on the Notes, the Receipts or the Coupons; provided that the Issuer shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the Relevant Jurisdiction, with respect to the Fiscal Agency Agreement or as a consequence of the issuance of the Notes, the Receipts or the Coupons.

9 PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs and is continuing, any Noteholder may give notice to the Issuer at the specified office of the Fiscal Agent that any Note held by it is and shall immediately become, due and payable at the Early Redemption Amount of such Note together with accrued interest (if any) to the date of payment without further formality:

(a) **Non-Payment**: the Issuer fails to pay the principal of or any premium (if any) or interest on any of the Notes when due and, in the case of principal, where such failure continues for a period of 7 days, or, in the case of any premium (if any) or interest, where such failure continues for a period of 30 days; or

(b) **Breach of Other Obligations**: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Deed of Covenant and such default is incapable of remedy or, if capable of remedy, remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the specified office of the Fiscal Agent; or

(c) **Cross-Default**:

(i) any Public External Indebtedness of the Bank or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Public External Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Bank or the relevant Subsidiary (as the case may be) or (provided that no event of default, howsoever described, has occurred) any person entitled to such Public External Indebtedness; or

(iii) the Bank or any of its Subsidiaries fails to pay when due or (as the case may be) within any originally applicable grace period any amount payable by it under any guarantee or indemnity of any Public External Indebtedness,

provided that the amount of Public External Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$25,000,000 (or its equivalent in any other currency or currencies); or

(d) **Security enforced**: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer, the Bank or any of its Material Subsidiaries; or

(e) **Insolvency**: (i) the Bank or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Bank or any of its Material Subsidiaries or the whole or a substantial part of the undertaking, assets and revenues of the Bank or any of its Material Subsidiaries, (iii) the Bank or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee or indemnity of any indebtedness given by it or (iv) the Bank or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business, except (x) on terms approved by an Extraordinary Resolution of the Noteholders or (y) in the case of any Material Subsidiary, for the purpose of and followed by (A) a solvent winding-up or dissolution, (B) a Reorganisation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Bank and/or another Subsidiary or (C) a disposal of or by a Material Subsidiary on an arm's length basis where the assets (whether in cash or otherwise) from such disposal shall be transferred to or otherwise vested in the Bank and/or another Subsidiary; or

(f) **Winding-up**: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Bank or any of its Material Subsidiaries, except in the case of any Material Subsidiary, for the purpose of and followed by (i) a solvent winding-up or dissolution, (ii) a Reorganisation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Bank and/or another Subsidiary, or (iii) a disposal of or by a Material Subsidiary on an arm's length basis where the assets (whether in cash or otherwise) from such disposal shall be transferred to or otherwise vested in the Bank and/or another Subsidiary; or

(g) **Analogous Events**: any event occurs which that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) (*Security enforced*) to (f) (*Winding-up*) above; or

(h) **Illegality**: it is or will become unlawful for the Issuer or the Bank to perform or comply with any one or more of its obligations under or in respect of any of the Notes, the Coupons or the Deed of Covenant.

In these Conditions:

"**Material Subsidiary**" means any Subsidiary of the Bank:

(A) whose gross revenue (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries), whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose net profit (consolidated in the case of Subsidiary which itself has consolidated Subsidiaries) represent not less than 5 per cent. of the consolidated gross revenue, the consolidated gross assets, or, as the case may be, the consolidated net profit of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, *provided that*:

(1) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the Bank's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank;

(2) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenue, gross assets and net profit (consolidated, if applicable) shall be determined on the basis of *pro forma* consolidated financial statements (consolidated, if applicable) prepared for this purpose; and

(3) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (1) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Bank; or

(B) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, *provided that* on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (A) above.

A certificate signed by an authorised signatory of the Issuer that in his/her opinion (making such adjustments (if any) as he/she shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer and the Noteholders.

"**Reorganisation**" means any reconstruction, amalgamation, reorganisation, merger or consolidation.

11 MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Noteholders**: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or Maximum

Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum Rate of Interest, Instalment Amount or Redemption Amount, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than three-quarters, or at any adjourned meeting not less than one-quarter of the nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification**: Notwithstanding Condition 11(a) above, the Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Bank shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or to comply with mandatory provisions of the law. Any such modification shall be binding on the Noteholders and such modification shall be notified to the Noteholders by the Bank as soon as practicable thereafter in accordance with Condition 14.

12 REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes (except for the first payment of interest and if applicable, the timing for notification to the NDRC, PBOC, CBIRC and/or SAFE and save that for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

14 NOTICES

Notices to the Noteholders will be (i) (in the case of holders of Registered Notes) sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register, and be deemed to have been given on the fourth day after the date of mailing, or (ii) (in the case of holders of Bearer Notes) published in English in the South China Morning Post and in Chinese in the Hong Kong Economic Journal. If at any time publication in such newspapers is not practicable, notices will be valid if published in an English and/or Chinese language newspaper, as the case may be, with general circulation in Hong Kong. Any such notice will be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

15 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16 CURRENCY INDEMNITY

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 16, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

17 GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons and any non-contractual obligations arising out of or in connection with them (the "**Proceedings**") may be brought in such courts. The Bank irrevocably submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to the Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) **Service of Process**: The Bank irrevocably agrees to receive service of process at the place of business of the Bank in Hong Kong registered in accordance with the Companies Ordinance (Cap. 622) of Hong Kong at Level 54 Hopewell Center, 183 Queen's Road East, Hong Kong in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such address (whether or not actually received by the Bank). If due to any reason the Bank shall cease to have a place of business in Hong Kong, the Bank irrevocably agrees to appoint a substitute process agent and shall immediately notify the Noteholders of such appointment. Nothing shall affect the right to serve process in any manner permitted by law.

(d) **Waiver of Immunity**: Each of the Issuer and the Bank further irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the Issuer or the Bank, and each of the Issuer and the Bank irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the capitalisation and indebtedness of the Group as at 30 June 2020. The following table should be read in conjunction with "*Summary Financial Information*" and the Group's consolidated financial statements and related notes included elsewhere in this Offering Circular.

	As at 30 June 2020	
	Actual	
	(RMB in millions)	*(U.S.$ in millions)*[1]
Liabilities		
Debt securities issued	635,713	89,979
Other liabilities	5,898,537	834,884
Total liabilities	6,534,250	924,863
Equity		
Share capital	48,935	6,926
Other equity instruments	78,083	11,052
Capital reserve	58,977	8,348
Other comprehensive income	7,081	1,002
Surplus reserve	39,009	5,521
General reserve	81,535	11,541
Retained earnings	217,257	30,751
Non-controlling interests	15,489	2,192
Total equity	546,366	77,333
Total Capitalisation[2]	**7,080,616**	**1,002,196**

1 U.S. dollar translations are provided for indicative purposes only and are unaudited. These translations were calculated based on exchange rate of RMB7.0651 to U.S.$1.00 on 30 June 2020 as set forth in the H.10 statistical release of the Federal Reserve Board.

2 Total capitalisation comprises total liabilities and total equity of the Group.

In August 2020, the Bank issued tier-2 capital bonds in the national interbank bond market with a term of 10 years and a coupon rate at 3.87 per cent. The size of the issuance was RMB40.0 billion. After deducting the issuance costs, all proceeds were used to replenish the Bank's tier-2 capital in accordance with applicable laws and regulatory approval, so as to improve the Bank's capital structure, and promote the steady development of its business.

In August 2020 and October 2020, the board of directors and the general meeting of the Bank, respectively, gave consent for the Bank to issue undated capital bonds up to RMB40.0 billion in domestic and overseas markets to replenish its additional tier-1 capital.

Save as disclosed in this Offering Circular, there has been no material adverse change in the capitalisation of the Group since 30 June 2020.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a national commercial bank in the PRC with a strong and established market position. In the first half of 2020, the Bank was ranked 21st among the Top 500 Global Bank Brands by The Banker magazine, which established the Bank's leading position among commercial banks in the PRC. As at 30 June 2020, the Group had RMB7,080.6 billion of total assets, RMB4,090.7 billion of total loans and advances to customers, RMB4,484.5 billion of total deposits from customers, and RMB530.9 billion of total equity attributable to its shareholders.

The Bank has strong full-range service capabilities to offer financial products and services to its customers nationwide.

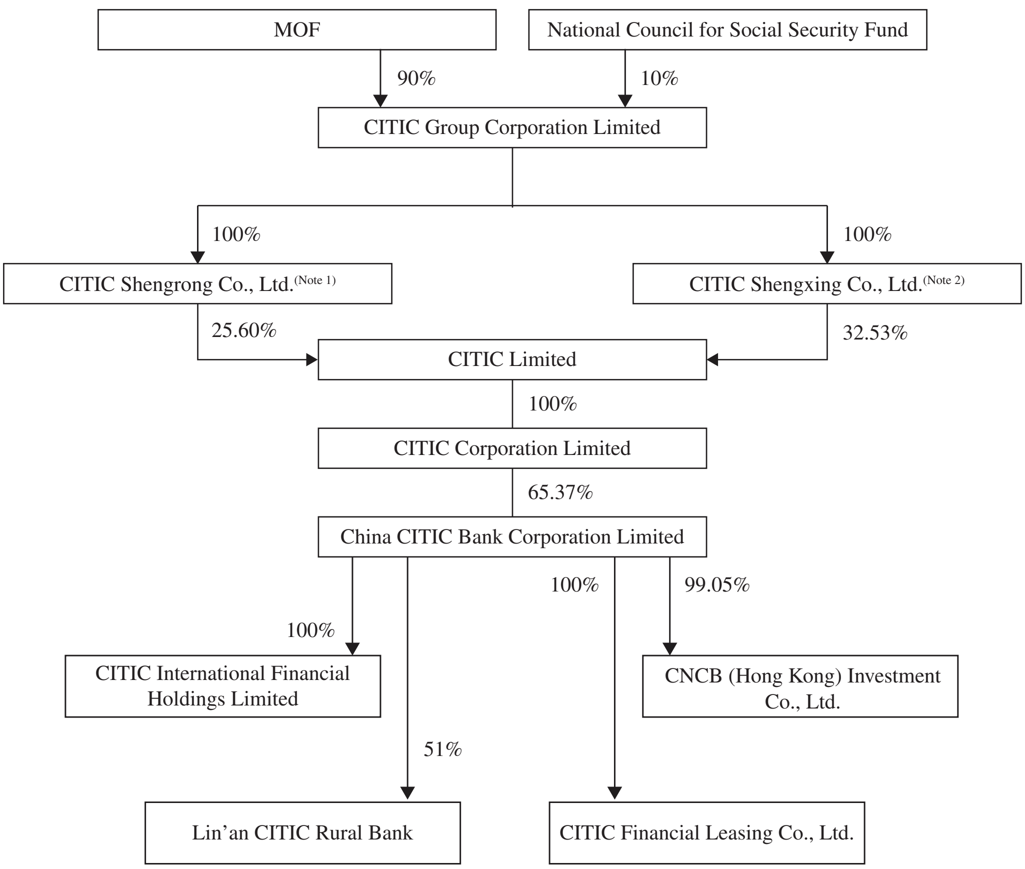
The Bank's principal business activities in the PRC include corporate finance, retail banking and financial markets business.

Geographically, the Bank is incorporated in the PRC where substantially all of its operations are located. The Bank has a strong and established branch network with 1,397 outlets in 151 large and medium-sized cities in the PRC, covering 31 provinces, autonomous regions and municipalities directly under the central government in the PRC as at 30 June 2020.

Leveraging the Bank's strong full-range capabilities and established geographic distribution, the Bank endeavours to expand its business in the PRC as well as internationally and to integrate domestic and international financial products and services on a unified platform.

CORPORATE STRUCTURE

The following diagram sets out the structure of the Group as at 30 June 2020.



Note 1: Also known as CITIC Glory Limited.

Note 2: Also known as CITIC Polaris Limited.

THE BANK'S COMPETITIVE STRENGTHS

The Bank aspires to become a unique and responsible enterprise offering the best comprehensive financial services with dignity and a human touch. To attain this development vision, the Bank fully leverages on the unique competitive advantages of CITIC Group in placing financial and non-financial businesses on an equal footing, and at the same time holds firm to its "customer orientation" and adheres to the business concept of "safe CITIC Bank, compliant operation, science and technology for growth, serving the real economy, market orientation and value creation". For corporate customers and institutional customers, the Bank offers integrated financial solutions in corporate banking business, international business, financial markets business, institutional banking business, investment banking business, factoring business and custody business. For individual customers, the Bank provides diversified financial products and services in retail banking, credit card, consumer finance, wealth management, private banking, going abroad finance and e-banking.

Important player in the PRC banking system, strong brand influence.

Established in 1987, the Bank is one of the earliest PRC commercial banks to participate in the overseas financial markets, contributing to the economic development of the PRC. The Bank's scale of business and unique status consolidated its significance and importance in the PRC banking system, positioning the Bank to play an integral and strategic role in the PRC banking system. As at 30 June 2020, the Group had total assets of approximately RMB7,080.6 billion and employed approximately 56,881 employees across its network.

The Bank's strong brand influence is guided by its strategy of "building trust for long-term growth, incorporating smart services for boundless financing". With the provision of a full range of financial products and high-quality customer service, the Bank enjoyed high reputation and extensive influence in both domestic and overseas markets. In 2020, The Banker magazine of the United Kingdom ranked the Bank 21st on its list of the "Top 500 Global Bank Brands" and 24th on its list of "Top 1,000 World Banks" in terms of tier-one capital.

Ability to leverage on CITIC Group's integrated financial service platform.

CITIC Group, the Bank's controlling shareholder, is a leading state-owned multi-national conglomerate in the PRC engaged in a wide range of financial services, including investment banking, trust, fund management, insurance and futures. The Bank, as part of CITIC Group, frequently co-operates with other entities within CITIC Group through client resources sharing, joint marketing efforts and cross-selling of services. The Bank is able to maintain its competitiveness in the market by providing comprehensive and diversified financial services through the integrated financial service platform of CITIC Group. The Bank has given full play to CITIC Group's unique advantages in "Finance + the Real Economy" to provide customers with comprehensive cross-border and cross-market services by way of "CITIC United Fleet" (中信聯合艦隊).

In terms of synergy with other subsidiaries of CITIC Group, in the first half of 2020, the Bank actively participated in CITIC Group's main synergy platform, built consensus on synergy, strengthened information sharing and risk prevention and control, and consolidated collaboration mechanism, thus forming joint force with subsidiaries of CITIC Group to facilitate top-level design and systematic push of synergy efforts. As at 31 December 2019, the Bank successfully implemented 557 co-ordinated projects with CITIC Securities, China Securities, CITIC Trust, CITIC Capital and other financial subsidiaries of CITIC Group. The financing products covered bond underwriting, equity investment, trust plan and financial leasing, and cumulatively provided joint financing of RMB640 billion for corporate customers, exceeding RMB600 billion for a third consecutive year, thereby strongly supporting the development of the real economy. As at 30 June 2020, the Bank has successfully implemented 358 co-ordinated projects with CITIC Securities, China Securities, CITIC Trust, CITIC Prudential Life Insurance Co., Ltd. and other financial subsidiaries of CITIC Group. The financing products covered bond underwriting, equity investment and trust plan, and cumulatively provided joint financing of RMB361.5 billion for customers.

In terms of industrial and financial co-ordination, the Bank has provided integrated solutions to meet customers' diverse needs, and leveraged the advantages of the "CITIC United Fleet" to explore a new cross-border coordination model. In 2019, it assisted the environment consortium of CITIC Group affiliated entities in winning the first comprehensive treatment project of Baiyangdian Wetland in Xiong'an New Area, actively participated in the construction of Pingtan as a pilot demonstration zone practicing "one country, two systems", and supported the construction of Hainan Free Trade Zone (Port) and the contracting of the strategic cooperation agreement of Asia-Pacific financial town in Sanya.

In terms of cross-border co-ordination, the Bank further promoted business synergy with the overseas subsidiaries of CITIC Group and its own overseas subsidiaries to achieve the domestic and overseas customer resource sharing. Relying on the advantages of London as an international financial center, the Bank strives to build London Branch into the CITIC Group's overseas business co-ordination platform.

Extensive nationwide branch outlet network complemented by a multi-channel electronic banking system.

The Bank has a nationwide branch network in the PRC. As at 30 June 2020, the Bank had 1,397 outlets in 151 large and medium-sized cities in the PRC, including 37 tier-one branches which are directly managed by its head office, 124 tier-two branches, and 1,236 sub-branches, including 38 community, small and micro sub-branches. It maintains a strong presence and extensive network in economically developed areas. Such extensive network enables the Bank to diversify risks and minimise potential adverse influence of regional economic risk on the overall business of the Bank.

In terms of overseas outlets, in addition to the Bank's London Branch, as at 30 June 2020, CNCBI, an affiliate of the Bank, had 35 outlets and 2 business centres in Hong Kong, Macao, New York City, Los Angeles, Singapore and the PRC. As at 30 June 2020, JSC Altyn Bank, a subsidiary of the Bank, had seven outlets and one private banking centre in Kazakhstan.

To complement and extend its nationwide branch network, the Bank operates a multi-channel electronic banking transaction system. As at 30 June 2020, the Bank had 1,678 self-service banks, 6,058 self-service terminals, and 6,376 smart teller machines. The Bank launched an online platform to transfer wealth management products, offering online services including product quotation and product purchase, to satisfy its customers' needs for mobile wealth management. As at 30 June 2020, the Bank had 48.8 million accounts of mobile banking customers and 10.9 million registered monthly active mobile banking users, an increase of 6.5 per cent. and 17.3 per cent. compared with the end of 2019, respectively.

The Bank's personal online banking has also continued to develop steadily. As at 30 June 2020, the Bank had 50.0 million accounts of personal online banking users, representing a year-on-year increase of 6.2 per cent.

Leading position in the corporate banking business among commercial banks in the PRC.

The Bank has a leading position in the corporate banking business among commercial banks in the PRC. For the six months ended 30 June 2020, the Group's operating income from its corporate banking business was RMB46.9 billion, accounting for 45.9 per cent. of its total operating income. The Bank has achieved a steady growth in corporate deposit balances in recent years. For the years ended 31 December 2017, 2018 and 2019, and for the six months ended 30 June 2019 and 2020, the average balance of the Group's corporate deposit was RMB2,810.8 billion, RMB2,895.6 billion, RMB3,059.3 billion, RMB2,989.0 billion and RMB3,362.3 billion, respectively. As at 30 June 2020, the Bank had approximately 783,700 corporate customers. Corporate loans have historically been the largest component of the Bank's loan portfolio; as at 30 June 2020, the Group recorded a total corporate loan balance of RMB2,089.0 billion, an increase of 6.8 per cent. compared with 31 December 2019. The Bank's well-established customer base reinforces its leading position in corporate banking business among national joint stock commercial banks in the PRC.

All-rounded and balanced growth, including rapid growth and innovative development in retail banking business.

The Bank's business has grown in an all-round, balanced manner in recent years. The Bank developed a business structure with corporate banking as the main body and retail banking and financial markets businesses as the two wings, and is gradually shifting towards the "Troika" structure. The corporate banking business of the Bank actively makes efforts and progress in business transformation, expansion, consolidation, restructuring and specialisation in the light of the general requirements of "progress amid stability, advance for transformation". As for retail banking, the Bank systematically devised 16 strategies on the high-quality development and upgradation of retail banking through bank-wide transformation from 2020 to 2023. With its customer service orientation, the Bank's retail banking segment aims to become customers' first choice of wealth management bank. The Bank also pushed forward the iterative upgrade of the retail operation management system with digital transformation as its main task, and upgraded its business model and growth model with higher value contribution as its standard. The Bank's retail banking business segment optimised its business and growth model for the improvement of the market value of the whole Bank. Regarding the financial market business, the Bank adhered to light development, emphasised collaboration within the Group and between sectors, improved the overall customer marketing capabilities, and continuously pushed forward various business innovations. It also sped up the exploration of digital transformation and comprehensively promoted high-quality sustainable development.

Retail banking is one of the principal business activities of the Bank in the PRC. The principal components of the Bank's retail banking business consist of wealth management and private banking, personal loans, personal deposits, credit cards, and overseas travel financial services. The Group's retail banking business has experienced rapid growth in recent years. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, the Group's operating income from its retail banking business was RMB54.4 billion, RMB57.5 billion, RMB71.3 billion, RMB33.8 billion, and RMB38.8 billion respectively.

The Bank has also been proactive in exploring new operation models for its credit card business in the mobile internet era, and has also launched new credit card products to capture the market of young adults. The Bank has continually improved its online platform, including the upgrade to its Mobile Card Space APP to introduce new features and functions. The Bank continued to deepen co-operation with airlines in loyalty memberships and actively extended crossover co-operation with Alibaba Group Holding Ltd, Tencent Holdings Ltd. and other leading partners to innovate co-operative patterns. For the six months ended 30 June 2020, the Bank's income from its credit card business was RMB30.4 billion, representing a growth of 9.5 per cent. compared with the same period in 2019. The Bank is committed and has the capacity to offer innovative products in its retail banking business.

Financial technology innovation.

The Bank is committed to the innovation and application of financial technology, and has experienced rapid development in core technological competency development, technology-based epidemic control, new technology application and transformation towards agile operations by adapting to the latest trends. The Bank made further progress in channel building, intelligent application, scenario expansion, payment innovation and inclusive financial services, and boosted the empowerment from financial technology and digital transformation.

Increasing non-interest income in recent years.

The Bank generates non-interest income through fee and commission income, trading gains, gains from investment securities and hedging gains. A steady flow of non-interest income allows the Bank to diversify its risk and enable it to maintain a relatively stable revenue stream in times of fluctuating interest rates. In recent years, the Bank steadily increased its net non-interest income through the diversification of its business. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, the Group's net non-interest income was RMB57.6 billion, RMB52.9 billion, RMB60.6 billion, RMB31.7 billion and RMB37.3 billion, respectively.

Scientific and effective risk management and improved asset quality.

The Bank is committed to establishing a "comprehensive, independent, unified and professional" risk management system. By cultivating a risk management culture and awareness of compliance management, the Bank implements an overall risk management scheme with each member's responsibilities clarified and with the relevant core IT improved and the risk management abilities enhanced by quantifying and qualifying the risks. The Bank implements a risk management strategy of "quality industries, quality enterprise, mainstream markets, mainstream customers", and proactively manages credit risk, liquidity risk, market risk, operational risk and other risks at all levels and across all businesses. For more details, please refer to "*Risk Management*".

The asset quality of the Bank has remained overall stable in recent years. The NPL ratio of the Bank decreased to 1.65 per cent. as at 31 December 2019 from 1.77 per cent. as at 31 December 2018. In the first half of 2020, the NPL ratio of the Bank increased to 1.83 per cent. and the special mention loan ratio of the Bank increased to 2.55 per cent. mainly due to the impact of the COVID-19 pandemic. As at 31 December 2018 and 2019 and 30 June 2020, the liquidity coverage ratio of the Bank was 114.33 per cent., 149.27 per cent. and 125.95 per cent., respectively, exceeding the minimum regulatory standard of 100 per cent. for commercial banks required by CBIRC. As at 31 December 2018 and 2019 and 30 June 2020, the net stable funding ratio of the Bank was 104.26 per cent., 105.85 per cent. and 105.75 per cent., respectively. For more details, please refer to "*Risk Management – On-going Credit Monitoring* and *Loan Classification*".

An experienced management team with a proven track record, employing scientific corporate governance and business operations.

The senior management team of the Bank has extensive professional experience in the PRC banking industry. All members of the Bank's management team have in-depth knowledge of banking operations and management, the PRC macroeconomic environment, and the PRC banking industry. The Bank's experienced management team has demonstrated a track record of successfully implementing a series of transformation initiatives, including the improvement of the Bank's corporate governance and risk management. The Bank has improved its operations and financial results under the leadership of its management team.

The chairperson and executive director of the Bank, Ms. Li Qingping, was a non-executive director of the Bank between March and May 2014, secretary of the Party Committee of the Bank since May 2014, and was an executive director and president of the Bank between July 2014 and July 2016. Ms. Li is concurrently executive director and deputy general manager of CITIC Group, executive director, deputy general manager and executive committee member of CITIC Limited, executive director, deputy general manager of CITIC Corporation Limited, chairperson of CIFH, vice chairperson of CITIC Prudential Life Insurance Co., Ltd., and chairperson of CITIC aiBank Corporation Limited. Prior to that, Ms. Li was a Party Committee member of CITIC Group and concurrently deputy general manager and Party Committee member of CITIC Limited between September 2013 and May 2014. Ms. Li has over 30 years' professional experience in the Chinese banking industry.

The president, executive director and chief financial officer of the Bank, Mr. Fang Heying, joined the board of directors of the Bank in September 2018. He has been president of the Bank since March 2019, deputy secretary of the Party Committee of the Bank since February 2019, chief financial officer since January 2017 and a Party Committee member of the Bank since August 2014. Mr. Fang was vice president of the Bank between November 2014 and March 2019. Mr. Fang is concurrently a director of CNCBI and CIFH. Prior to that, Mr. Fang was a director of CNCB (Hong Kong) Investment Co., Ltd. between January 2014 and May 2019, and headed the Bank's financial markets business from May 2013 to January 2015. Mr. Fang has over 20 years' professional experience in the Chinese banking industry.

The Bank's corporate governance and business operation are scientific, efficient and effective. The Bank adheres to market-oriented operation and constantly improves its corporate governance and business operation systems and mechanisms. The result is the formation of an organisational structure characterised by efficient management and professional division of duties. According to the principle of separating the front, middle and back offices, the Bank established a matrix management model with the head office departments as the lines and the branches and sub-branches as the arrays.

THE BANK'S STRATEGIES

Supporting businesses in the real economy with targeted measures

The Bank seeks to uphold its original aspiration of supporting the real economy. The Bank regards "inclusive finance" (i.e. to make financial products and services accessible and affordable, regardless of the net worth of the customer) as of high strategic importance, and implements favoured measures in performance evaluation and pricing so as to power growth for small and micro-sized enterprises. As part of this initiative, the Bank launched a self-service electronic discounted bill product "Xin Miao Tie" ("信秒貼") and realised full-process online processing. The Bank established a centralised risk control model for inclusive finance integrating credit review, approval, extension and post-lending inspection. The Bank makes effective use of financial technology and has developed an automatic approval system and a smart risk warning system for loans to small and micro enterprises.

Private enterprises are the most dynamic sector in the economy, and the Bank's important customers and partners. The Bank intends to continue with its tailor-made measures to give financial support to the development of private enterprises, seeking to innovate business co-operation and risk control model in terms of policy support, procedure optimisation and technology empowerment. Private enterprises with ready market, technologies, promising future and core competitiveness have been and will continue to be the Bank's focus of support.

Full integration with national development strategies

The Bank is fully supportive of, and intends to fully align its own business strategies with, national development strategies. The Bank has set up three working groups for the integrated development of the Beijing-Tianjin-Hebei region, the Yangtze Economic Belt and the Guangdong-Hong Kong-Macao Greater Bay Area, respectively, to implement regional development initiatives. Based on local geographic and business features, the Bank sets different business goals, support and management authority to local branches in an effort to support national initiatives. Leveraging the favourable geographic conditions endowed by the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Bank's overseas subsidiaries such as CNCBI and CNCB Investment continues to deepen synergy and co-operation with the Bank and CITIC Group. Seizing the opportunities brought by the shift of growth engines and industrial upgrade, the Bank stepped up support to key areas such as new infrastructure, mega consumption and mega health, and voluntarily withdrew from low-quality and low-efficiency customers. The Bank will continually align its credit structure with the trends of social and economic development.

Heavily invest in financial technology

Since 2014 when the Bank became one of the first banks to roll out online loan products, the Bank has been making and continues to make efforts to harness information technologies to empower its business. From then on, the Bank initiated and founded CITIC aiBank with Baidu, developed an artificial-intelligence-driven platform "CITIC Brain", and contributed to the building of the block chain platform in Xiongan New Area. The Bank independently developed a distributed database for financial services. The Bank will continue to invest heavily in, amongst others, financial technology, core technology capacity building, technology-drive pandemic control, new technology application and agile organisational transformation.

Pursue capital-saving development and nurture capability for light development

In the long term, striking an effective balance between business development and capital restriction is a major challenge. Recently, the Bank took strict measures to control capital consumption. The Bank will continue to focus on capital-light development, accelerate transformation from a credit agency to a service agency, develop intermediary services such as investment banking and agency sale in a faster speed, expand capital-light products such as transaction banking and asset custody services as the Bank's focuses, and provide customers with cross-market and cross-term services. The Bank will work to transform from making interest margin to making on price margin by fostering its capability for asset circulation and investment trading. Based on changing the traditional business model of expanding business scale, the Bank will improve mechanisms for credit asset circulation, and a blaze new trail in stimulating the flow of re-possessed assets and equity investment. The Bank will seek to consolidate its role as a core maker on the foreign exchange and money markets, and to strengthen its market-making business and effectively make use of its existing assets. The Bank is equally focused on quality and efficiency and fostering more effective management of capital. The Bank will give more financial support to capital-light business, step up efforts to dispose assets with low efficiency and recover written-off loans and fully explore the potential of off-balance sheet asset profit in replenishing capital.

Advancing digital transformation and accelerating efforts to enable technological empowerment

Digital transformation is an important priority of the Bank. The Bank will speed up top-level design and arrange digital transformation from a high starting point and with high standards, formulate a transformation plan, increase training across the Bank, and cultivate a digital mindset for all employees, so as to excel in this banking transformation and to stay abreast with the latest technological advancements. The Bank will accelerate digital marketing, explore the value of big data assets and enhance marketing by means of big data technology. The artificial-intelligence-driven platform independently developed by the Bank, "CITIC Brain", integrates model development, training, arrangement and management and has been used to provide targeted financial services in sectors of corporate banking and retail banking. The Bank applies digital technologies to decision making so that it can build an agile and efficient data middle desk to improve analysis, evaluation and decision making in a scientific manner and shift from experience-based decision making to digital-technology-powered decision making. The Bank is planning to build a dedicated team of data professionals to provide tailor-made strategies to improve the capability of front-line operators, employees at various management positions at various levels at front, middle and back office. The Bank endeavours to accelerate digital management, improve channel efficiency management, digital risk management, digital evaluation management and digital human resources management in the pursuit of overall refined management. Particularly in risk management, the Bank uses big data to innovate credit approval and pricing, and to realise automatic risk warning and online risk control so as to comprehensively enhance the Bank's ability to analyse and apply data in the whole process from decision making to execution and feedback.

THE BANK'S KEY MILESTONES AND CORPORATE HISTORY

In 1984, Mr Rong Yiren, the chairman of CITIC Group at the time, requested approval from the PRC government to set up a bank within CITIC Group. In April 1985, the banking department of CITIC Group was formed with the approval from the State Council and the PBOC.

On 20 April 1987, the Bank was formally established as a separate legal entity under the name "CITIC Industrial Bank" through restructuring of the banking department of CITIC Group with approval from the State Council and the PBOC to conduct licensed RMB and foreign-currency banking businesses as well as other relevant financial operations.

On 11 February 1998, CNCB (Hong Kong) Capital Limited was established under the name "AIM Asset Management Limited". Its name changed to Rocks Asia Capital Group Limited on 2 March 2011, and to its current name on 22 September 2015.

On 2 August 2005, the Bank changed its name from "CITIC Industrial Bank" to "China CITIC Bank", which reflected its commitment to transform into a bank that focuses on both personal banking and corporate banking businesses. The Bank was established as a joint stock limited company on 31 December 2006 under the name "China CITIC Bank Corporation Limited". The Bank was simultaneously listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange on 27 April 2007.

In May 2012, the Bank established the Zhejiang Lin'an CITIC Rural Bank with private backbone enterprises.

In November 2014, the Bank established its London representative office.

In March 2015, the Bank established CITIC Financial Leasing Co., Ltd with a registered capital of RMB4 billion.

In December 2016, the Bank co-operated with Baidu Inc. and established CITIC aiBank Corporation Limited (originally named CITIC Baixin Bank Corporation Limited), a joint stock limited company, the first approved direct bank in the form of an independent legal person in the PRC.

In November 2016, the Bank established its Sydney representative office.

In April 2018, the Bank acquired a majority stake in JSC Altyn Bank and became the first Chinese bank to acquire bank equity in the countries along the "Belt and Road".

In July 2020, CITIC Wealth Management Corporation Limited was officially established with a registered capital of RMB5 billion and opened for business. It mainly engages in wealth management-related business such as issuance of public and private wealth management products, and wealth management consultation and advisory.

HONOURS AND AWARDS

The Bank has achieved numerous awards and recognitions in recent years.

	Awards and recognitions	Awarding organisation
2019		
October	"2019 People's Craftsmanship Product Award" for the Bank's Going Abroad Financial Ecosystem platform	people.cn
July	26th on the list of the "Top 1,000 World Banks" in terms of tier-one capital	The Banker magazine

	Awards and recognitions	Awarding organisation
June	"Excellent Member Institution", "Excellent Discounting Institution" and "Best Service Award"	Shanghai Commercial Paper Exchange Corporation Ltd.
May	"Custodian Bank of the Year in China", "Best Blockchain Initiative, Application or Programme" and "The Financial Market Technology Implementation of the Year-Interbank Financial Service Platform Implementation"	The Asian Banker
April	"Excellent International Business Member" "Best Market Maker in Interbank Inquiry Market", "Inquiry Market Liquidity Contribution Award" and the second prize of "Excellent Financial Member".	Shanghai Futures Exchange
	"Best Depository Bank Award"	Shanghai Gold Exchange
	"Excellent Foreign Exchange Self-operated Clearing Award", "Excellent Settlement Member" and "Excellent Clearing Member"	Shanghai Clearing House
March	First place in the "RMB Outlook Award"	REFINITIV
	"Core Dealer in Interbank Local Currency Market", "Excellent Money Market Dealer in Interbank Local Currency Market", "Excellent Derivatives Market Dealer in Interbank Local Currency Market" and "Innovation Award for Interbank Local Currency Market Trading Mechanism – X-Swap"	National Interbank Funding Center
	"Best Spot Matchmaking Institution Award", "Best Spot Market Making Institution Award", "Most Popular Spot Matchmaking Institution Award" and "Most Popular Spot Market Making Institution Award"	China Foreign Exchange Trade System
	"Special Information Disclosure and Valuation Award"	Banking Credit Assets Registration and Circulation Center
	"Excellent UnionPay Card Innovation Cooperation Award"	UnionPay International
February	19th among the "Top 500 Global Bank Brands"	The Banker magazine
January.	"Gold Industry Service Award" and "Market Progress Award"	Shanghai Futures Exchange

	Awards and recognitions	Awarding organisation
2018		
December . . .	"Excellent Financial Bond Issuer Award" and "Excellent ABS Initiator Award"	China Central Depository & Clearing Co., Ltd.
November. . .	"2018 China Loan House"	IFR Asia
	"Best Performance Award for Syndicated Loans"	China Banking Association
October	In the competition for the "2018 China Financial Technology Innovation List", the Bank's mobile banking was named "Excellent Solution for Financial Technology Innovation and Application"	China Financial Certification Center
July	27th on the list of the "Top 1,000 World Banks" in terms of tier-one capital	The Banker magazine
April	"Excellent Comprehensive Institutional Market Maker" in the interbank bond market	National Association of Financial Market Institutional Investors
	"2017 Outstanding Financial-Category Member" and "Excellent Market Maker at the Interbank Price Inquiry Market"	Shanghai Gold Exchange
March	"2017 Best Market Making Award", "Best Trading Award", "Best Spot Trading Award", "Best Forward Swap Trading Award", "Award for the Most Popular Institutional Market Maker in Forward Swap Trading", "Award for the Institutional Market Maker with the Best Technology", "Award for the Institutional Market Maker with the Best Back-office Support", "Best Options Member Award" and "Award for Options with the Best Market Making Potentials"	China Foreign Exchange Trade System
February. . . .	24th on the list of the "Top 500 Global Bank Brands"	The Banker magazine
January.	"Core Institutional Investor", "Excellent Issuer of Interbank Certificates of Deposit" and "Excellent Money Market Institutional Investor" in the interbank local currency market	National Interbank Funding Center
	"Excellent Comprehensive Institutional Market Maker"	National Association of Financial Market Institutional Investors
	"Core Institutional Investor" and "Excellent Derivatives Market Institutional Investor"	China Foreign Exchange Trade System
2017		
November. . .	"Bank of the Year in China"	The Banker magazine

RECENT DEVELOPMENTS

In August 2020, the Bank issued tier-2 capital bonds in the national interbank bond market with a term of 10 years and coupon rate at 3.87 per cent. The size of the issuance was RMB40.0 billion. After deducting the issuance costs, all proceeds were used to replenish the Bank's tier-2 capital in accordance with applicable laws and regulatory approval, so as to improve the Bank's capital structure, and promote the steady development of its business.

In August 2020 and October 2020, the board of directors and the general meeting of the Bank, respectively, gave consent for the Bank to issue undated capital bonds up to RMB40.0 billion in domestic and overseas markets to replenish its additional tier-1 capital.

In August 2020, the board of directors of the Bank gave consent for the Bank to contribute RMB2.0 billion to subscribe for the shares of CITIC aiBank Corporation Limited.

In December 2020, the board of directors of the Bank gave consent for the Bank to subscribe to a further 901 million shares of CITIC aiBank Corporation Limited.

THE BANK'S PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal business activities in the PRC include corporate banking, retail banking, and financial markets. It also carries out other businesses, including integrated financial services and internet finance.

The following table sets forth the operating income of the Group by business segment for the period indicated.

	For the six months ended 30 June 2020		**For the six months ended 30 June 2019**		**For the year ended 31 December 2019**		**For the year ended 31 December 2018**		**For the year ended 31 December 2017**	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
					Unit: RMB billion					
Corporate banking business	46.9	45.9	47.2	50.6	93.8	49.9	87.8	53.0	87.1	55.4
Retail banking business	38.8	37.9	33.8	36.2	71.3	37.9	57.5	34.7	54.4	34.6
Financial markets business	14.5	14.2	10.3	11.0	19.5	10.4	16.7	10.1	11.1	7.0
Other business	2.0	2.0	2.0	2.2	3.3	1.8	3.7	2.2	4.7	3.0
Total operating income	**102.2**	**100.0**	**93.3**	**100.0**	**187.9**	**100.0**	**165.8**	**100.0**	**157.3**	**100.0**

Corporate Banking Business

In implementing its strategy of becoming the "bank offering the best comprehensive finance services", the Bank targets the demands of "large industries, large customers, large projects and high-end customers", and seeks to tap into the need for financial services in terms of industrial chains, fund chains and product chains. With the use of the "combined corps" model, namely "CNCB + subsidiaries of CITIC Group + subsidiaries of CNCB", and comprehensive tailor-made services such as "commercial banking + investment banking + custody", "domestic + overseas", "corporate + retail" and "online + offline", the Bank provides a one-stop-shop package of financial solutions to its customers to maintain its competitive advantage in corporate financial services. The Bank has established a joint management model for strategic customers with "leading marketing, sharing risks, improving organisation, and linking performance" as the core. Through integrating front, middle and back offices, and coordinating the Bank's head office and branches, the Bank provided customised support to 143 head-office-level strategic customers and more than 1,400 strategic customers at the branch level. The Bank's corporate banking business follows the general principle of pursuing progress while ensuring stability and improving business transformation, taking the initiative and pursuing practical results in such aspects as advancing business transformation, expanding market, consolidating business foundation, refining business structure and highlighting business features. The Bank pursues effective transformation of the corporate banking business with a sound development momentum, enhanced business vitality, and improved development ability.

As at 30 June 2020, the Bank had approximately 783,700 corporate customers, while the Group had a total corporate deposits balance of RMB3,380.8 billion. As at 30 June 2020, the Group had a total corporate loan of RMB2,089.0 billion, representing an increase of 6.8 per cent. compared with the end of 2019. For the six months ended 30 June 2020, the Group's operating income from its corporate banking business was RMB46.9 billion, accounting for 45.9 per cent. of its total operating income, which included net non-interest income of RMB7.6 billion from its corporate banking business, representing 21.2 per cent. of the Group's total net non-interest income.

For the six months ended 30 June 2020, the Bank had an average daily balance of deposits of RMB1,159.8 billion from its institutional customers, as compared with RMB1,103.1 billion for the year ended 31 December 2019.

Corporate Deposit Business

The Bank's corporate deposits can be classified into deposits from corporations, deposits from institutions and other deposits. The Bank offers two principal deposit products to its corporate banking customers, demand deposits and time deposits. By developing the trade finance platform, asset custody platform, cash management platform, e-commerce platform, and internet finance platform, the Bank achieved steady growth in corporate deposit balances. As at 31 December 2017, 2018 and 2019, and as at 30 June 2020, the Group's aggregate corporate deposit balance was RMB2,874.2 billion, RMB2,903.9 billion, RMB3,160.7 billion, and RMB3,502.3 billion, respectively.

Corporate Loan Business

Corporate loans have historically been the largest component of the Bank's loan portfolio. As at 31 December 2017, 2018 and 2019, and as at 30 June 2020, the Group's corporate loans balance totalled RMB1.9 trillion, RMB1.9 trillion, RMB2.0 trillion, and RMB2.1 trillion, respectively. The Bank's corporate loans can be classified into short-term loans, medium and long-term loans, and discounted bills.

(i) Short-term loans

Short-term loans have a maturity period of not more than one year. For RMB-denominated short-term loans, the Bank negotiates with customers an interest rate in accordance with relevant laws and regulations. For foreign currency-denominated short-term loans, the Bank charges interest at either a fixed or floating rate, depending on prevailing conditions in the global financial markets, the Bank's cost of capital and the creditworthiness of customers.

(ii) Medium and Long-term Loans

Medium-term loans have a maturity period of more than one year but not more than five years, and long-term loans have a maturity period of more than five years. The Bank's medium and long-term loans consist primarily of fixed-asset loans, most of which are used for infrastructure construction and technology development and innovation.

(iii) Discounted bills

Discounted bills are a type of credit service in which the Bank purchases outstanding commercial bills from the payee or bearer at a certain discount. The two types of discounted bills are bank acceptance bills and commercial acceptance bills. The Bank generally purchases bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months. The Bank provides this facility to its customers as a source of short-term financing. The interest rate the Bank charges for discounted bills varies according to the creditworthiness of each customer. As at 31 December 2017, 2018 and 2019, and as at 30 June 2020, the Group had RMB107.5 billion, RMB242.8 billion, RMB311.7 billion, and RMB373.4 billion, respectively, of discounted bills outstanding.

Transaction Banking Business

The Bank was the first in the PRC to launch its exclusive brand, "Transaction +", for transaction banking. The philosophy of the brand was to "build transaction capability, extend the business chain, integrate commercial resources and make use of the Internet business ecosphere". "Transaction +" covers six sub-brands, including e-payment and receipt, e-finance/asset, e-trade finance, e-commerce, e-custody and e-channel, along with other products which form forming a complete brand system and product line.

In the first half of 2020, the Bank ramped up innovation in transaction banking products, actively explored application in payment and settlement scenarios, industries and new business models. It continuously upgraded online service capability of trade finance products, and launched 16 products to further meet settlement and financing needs of customers. Besides this, the Bank upgraded products along the supply chain and scaled up financing support for upstream and downstream enterprises of industrial chain while ensuing strong financial services to core enterprises in the industrial chain, fully supporting the real economy to help enterprises resume work and production. In addition, it built up a customer service system based on refined classification, improved response mechanism and created an online information interaction platform to improve the overall customer experience. Oriented to the all-round development in terms of "new experience, new services and new channels", the Bank released its transaction banking system version 3.0 to create a one-stop and comprehensive financial services platform integrating corporate online banking, corporate mobile banking and bank-enterprise direct connection.

As at 30 June 2020, the Bank had approximately 661,200 accounts of customers in transaction banking, representing an increase of 8.9 per cent. compared with the end of 2019. For the six months ended 30 June 2020, the Bank's transaction banking business processed 51.8 million transactions with total transaction value of RMB50.0 trillion, an increase of 14.9 per cent. and 24.4 per cent. compared with the same period in 2019, respectively. For the year ended 31 December 2019, the Bank's transaction banking business processed 97.2 million transactions with total transaction value of RMB64.7 trillion.

Investment Banking Business

The Bank established its investment banking centre in 2007 and has successfully built up four business categories: (i) direct financing consisting primarily of the underwriting of short-term bonds and medium-term notes; (ii) structured financing consisting primarily of syndicated loans, merger and acquisition loans, export credit and domestic factoring; (iii) asset management, consisting primarily of wealth management in co-operation with trust companies, and asset securitisation; and (iv) financial advisory services consisting primarily of equity financing advisory and periodic financial advisory services.

The Bank has continued to consolidate its market competitiveness in debt financing, vigorously promoting the implementation of key business projects in areas such as debt underwriting, equity financing, merger and acquisition loans and syndication as the lead bank. It accelerated credit support, improved product innovation, and achieved fast and steady development. In September 2017, the Bank's investment banking business won the "Best Company and Investment Bank" award by Asia Money and in November 2018, it received the "Best Performance Award for Syndicated Loans" from the China Banking Association.

During the first half of 2020, the Bank focused on leveraging the important role of bonds in supporting pandemic control, and underwrote 38 "pandemic prevention and control bonds", including the first issuances in Beijing, Tianjin, Zhejiang, Shandong, Henan, Anhui and Ningxia, fulfilling its responsibility as a state-owned enterprise. Besides this, the Bank's merger and acquisition financing business supported the development of manufacturing and successfully launched a set of quality merger and acquisition projects in the industry.

For the six months ended 30 June 2020, the Bank's revenue from investment banking was RMB4.9 billion, as compared with RMB4.8 billion for the corresponding period in 2019. During the first half of 2020, the Bank had underwritten RMB340.0 billion of debt financing instruments, ranking second in the Chinese debt finance market according to the data of Wind Info. During 2019, the Bank had underwritten 641 debt financing instruments totalling an amount of RMB440.9 billion, ranking 3rd and 5th by number of instruments and by value, respectively, according to the data of Wind Info. During the six months ended 30 June 2020, the Bank has underwritten 548 debt financing instruments totalling RMB340.0 billion, ranking 2nd by number of instruments and by value, according to the data of Wind Info.

International Business

The Bank's international business consists primarily of services relating to international letters of credit, international remittance, export and import collection, letters of guarantee, import bill purchase, export bill purchase, packaged loans, forfeiting and factoring services. Guided by the concept of value creation and capital-light development, the Bank has kept up to date with trends such as Renminbi internationalisation, the "Belt and Road Initiative", going abroad of Chinese enterprises and capital account liberalisation to promote key businesses. The Bank has made many electronic innovations, including its blockchain forfaiting platform becoming the largest blockchain trade finance platform in the domestic banking industry, its "settlement plus" innovation with CITIC aiBank, and the first online settlement system of "market procurement trading" in China.

For the six months ended 30 June 2020, the Bank's forex purchase and sale, forex receipts and payments for international balance of payments and customer-driven cross-border Renminbi receipts and payments recorded U.S.$67.0 billion, U.S.$111.5 billion and RMB145.9 billion, respectively, representing year-on-year increase of 0.8 per cent., 4.2 per cent. and 21.3 per cent., respectively. For the year ended 31 December 2019, the Bank's forex purchase and sale recorded U.S.$138.6 billion and its forex receipts and payments for international balance of payments registered U.S.$237.5 billion.

Asset Custody Business

The Bank has placed great importance to the innovation and development of its custody business. The Bank has continued to advance its business model of "commercial banking + investment banking + custody" and has made continuous improvement to its custody business system. The Bank has also developed a unique custody business and promoted business growth through its key branches and key projects.

As at 30 June 2020, assets under the Bank's custody were RMB9.7 trillion in aggregate, an increase of RMB586.7 billion compared with the end of 2019. For the six months ended 30 June 2020, income from custody business was RMB1.8 billion, as compared with RMB1.6 billion for the corresponding period in 2019. For the year ended 31 December 2019, the income from custody business was RMB3.1 billion.

The Bank vigorously developed the custody business, improved service capability and forged value-added custody business. During the first half of 2020, the Bank responded to the COVID-19 pandemic with scientific arrangement, upgraded customer management and operation service, and strengthened the push for key products including mutual funds, government funds, industrial funds and bond custody. The Bank ranked third in the banking sector and first among joint-stock commercial banks by the custody scale of mutual funds according to statistics released by the China Banking Association. It provided custody services for another 16 mutual funds. Furthermore, the Bank was successfully selected in the Venture Sub-fund Custodian Bank of National Fund for Technology Transfer and Commercialisation. It was also included in the China Life Insurance Company Limited's custody bank co-operative list. During the first half of 2020, the Bank became the first bank in the industry to conduct interbank bond custody business, a historic breakthrough in bond custody business in the interbank market.

Inclusive Finance Business

The Bank has fully implemented policies and plans made by the CPC Central Committee and the State Council on serving the real economy, supporting small and micro enterprises and developing inclusive finance, and actively implemented the policy requirements of regulators such as the PBOC and CBIRC. The Bank adopts the development philosophy of being "humane, mission-driven, considerate and benevolent" for inclusive finance and it has paid close attention to both business development and risk prevention and control on the principles of market-based and on a sound legal footing, making every effort in building a "value inclusive" system, and facilitating high quality development of financial services for small and micro enterprises with a range of considerate financial support.

The Bank has set up inclusive finance departments in 20 key branches, established six small and micro sub-branches, and set up an online inclusive finance "cloud service hall" with a capacity of more than 1,000 people on electronic channels such as portal websites, personal online banking and mobile banking. In addition, it continuously improved product and service system and strengthened product innovation, improved "chain finance" products by developing fully online credit products such as "Logistics e-Loan", "Tax e-Loan" and "Customs e-Loan", and promoted products including first-time loans, unsecured loans, medium and long term loans, manufacturing loans and loan renewal without repayment.

Retail Banking Business

The principal components of the Bank's retail banking business consist of wealth management and private banking, personal loans, personal deposits, credit cards, and going abroad financial services.

The Group's retail banking business has experienced rapid growth in recent years. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, the Group's operating income from its retail banking business was RMB54.4 billion, RMB57.5 billion, RMB71.3 billion, RMB33.8 billion, and RMB38.8 billion respectively. For the six months ended 30 June 2020, the Bank's net non-interest income from its retail banking business was RMB19.6 billion, a year-on-year increase of 6.2 per cent., making up 54.6 per cent. of the Bank's total net non-interest income. Credit card business contributed RMB15.8 billion to the total net non-interest income from the retail banking business, accounting for 43.9 per cent. of the total net non-interest income from the retail banking business, respectively. Meanwhile, income from agency business stood at RMB4.2 billion, representing a 48.7 per cent. increase year-on-year. For the year ended 31 December 2019, the Bank's net non-interest income from its retail banking business was RMB38.8 billion. For the year ended 31 December 2019, the Bank's net non-interest income from its retail banking business was RMB38.8 billion.

Wealth Management and Private Banking Business

The Bank re-defined its customer positioning and identified service standards for different layers of customers of retail banking to provide customers with differentiated products and services. The Bank established a wealth management and private banking department at its head office to integrate high-end retail customer and management resources, re-plan and re-deploy wealth management and private banking business in terms of brand development, research and development of proprietary products, cultivation of professional teams and systematic support. The Bank has attracted new customers through the launch of its "wealth management products dedicated to new customers" initiative, and met customer demand for liquidity management by establishing the "platform for transfer of personal wealth management products". In partnership with CITIC Group's financial subsidiaries, the Bank provides full-range retail financial services to retail customers to jointly build the "CITIC Wealth Management" brand. The Bank has provided support for high-end individual customers in effective asset allocation through the convening of "CITIC Wealth Forum" (中信財富論壇) and the release of the "CITIC Wealth Index" (中信財富指數) and the "CITIC Product Select" (中信產品精選). The Bank has recorded strong growth of its wealth management business in recent years. As at 30 June 2020, retail customers of the Bank had an AUM balance of RMB2,264.1 billion in total and a daily average AUM balance of RMB2,213.5 billion at the Bank, an increase of 7.5 per cent. and 12.0 per cent. as compared with 31 December 2019, respectively. VIP retail customers had an AUM balance of RMB1,103.1 billion at the Bank, an increase of 7.9 per cent. compared with the end of 2019. The Bank's private banking business aims to provide comprehensive, professional and exclusive financial and nonfinancial services for individuals, families and businesses that are its private banking customers. Its private banking family trust business has won multiple market awards, such as the award for "Overall Best National Private Bank" by Asiamoney in March 2018, and "China's Most Progressive Private Bank" by The Asian Banker and "Private Bank of the Year" by the Economic Observer in November 2018.

As at 30 June 2020, the Bank had AUM of RMB648.8 billion from its private banking customers, an increase of 13.0 per cent. compared with the end of 2019; and the number of private banking customers stood at 46,700 accounts, an increase of 11.5 per cent. compared with the end of 2019.

Personal Loan Business

The Bank's personal loan business consists primarily of residential mortgage loans, credit card loans and other personal loans. Adhering to the concept of "Value Personal Loan", and the role of personal loans as the "ballast stone" of the Bank's asset business, the Bank promoted the balanced development of its various personal loan products. In terms of personal housing loans, the Bank continued to grant commercial personal housing loans in accordance with the real estate regulation and control requirements of governments at all levels in China. In terms of personal business loans, the Bank improved its product policies, specified operating standards, refined credit-extending functions, and adopted diversified credit-extending methods, thereby improving the convenience of customers' fund using. Besides, it provided differentiated modes of repayment, matched actual financing demands of small and micro enterprises in a flexible way and improved efficiency of fund using. In terms of personal unsecured loans, the Bank strengthened fraud prevention and control, improved layered customer groups and implemented differentiated review and approval system. Besides, it upgraded the model of centralised accounting management for the business to improve quality and performance, and continuously promoted the development and branding of standardised "Xin Miao Dai" ("信秒貸" which means CITIC Bank instant loans), providing customers with easy and efficient access to online self-service financing services.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the Group's balance of personal loans (excluding credit card) totalled RMB897.9 billion, RMB1,042.0 billion, RMB1,209.2 billion and RMB1,263.9 billion, respectively.

Personal Deposit Business

The Bank offers various deposit products, including demand deposits, time deposits and call deposits, to its personal banking customers in RMB and other major foreign exchange currencies.

To adapt to the market trend of personal deposits gradually transferring to wealth management products, the Bank has sought to optimise its deposit structure, reducing the cost of deposits in order to maintain its balance of personal deposits. As at 30 June 2020, the Bank had personal deposits of RMB817.0 billion, an increase of 9.1 per cent. compared with the end of 2019.

Credit Card Business

The Bank's credit card centre was established in December 2007. The Bank has established an operation and marketing system to enhance the quality of the Bank's customer services, strengthen its local marketing efforts and improve the profitability of its credit card business. The Bank has also been proactive in exploring new operation models for its credit card business in the mobile internet era, and has also launched new credit card products to capture the market of young adults.

As at 30 June 2020, the Bank had issued 88.0 million credit cards, an increase of 5.6 per cent. compared with the end of 2019; and processed a credit card transaction volume of RMB1,163.4 billion for the six months ended 30 June 2020, a decrease of 5.3 per cent. compared with the same period in 2019. For the six months ended 30 June 2020, the Bank's income from its credit card business was RMB30.4 billion, representing a growth of 9.5 per cent. compared with the same period in 2019.

Overseas Travel Financial Services

The Bank was the first in the Chinese banking industry to offer overseas travel financial services in 1998 and has since formed a complete financial service system. The Bank has developed a system of products in five major categories, namely, foreign currency liabilities, cross-border settlement, visa, credit certification and global asset allocation. The service system provides one-stop services for five major customer groups: international students, business travellers, tourists, immigrants and foreigners. The Bank is the authorised financial institution in partnership with the embassies of nine countries (including the USA, the UK, Australia and Singapore) for provision of visa services. Targeting the tourist customer group, the Bank released its "CITIC Global Visas" business programme, further expanding overseas travel financial services to more countries and regions and gaining a competitive advantage as an industry leader. The Bank held "CITIC Vision Going Abroad Club" ("信視界出國俱樂部") series online lectures with a total of 12 sessions at the head office level with approximately 60,000 participants. Further, the Bank organised the "Mask from Thousands Miles away" ("愛心口罩萬里遞送") campaign to deliver over 70,000 masks to overseas students. It also released the "Calendar for Going Abroad Financial Services" ("出國金融護航日曆") every day to provide overseas students with important information on pandemic prevention and control, visa and study-abroad policies, practicing its retail brand with "a human touch".

As at 30 June 2020, the Bank recorded more than 7.0 million accounts of customers using its going abroad financial services, with RMB136,400 of average AUM per account and RMB43,300 of average deposits per account. As at 30 June 2020, the balance of personal foreign currency deposits with the Bank reached USD5.0 billion, ranking the second among the comparable joint-stock banks, according to the data published by the PBOC.

Financial Markets Business

The Bank's financial markets business includes interbank business and other financial markets business. The Bank's financial markets business has enjoyed continued success, having received the awards for "Best Spot Matchmaking Institution Award", "Best Spot Market Making Institution Award", "Most Popular Spot Matchmaking Institution Award" and "Most Popular Spot Market Making Institution Award" by the China Foreign Exchange Trading System in 2019.

The Bank has adopted a prudent investment strategy for Renminbi denominated bond investment, such as actively responding to market movements, making timely adjustments of bond tenors, optimising asset structure and paying equal attention to return on asset and market risk. Focusing on the structural adjustment of foreign-currency bond investments, the Bank has actively reduced its holding of assets with high expected risks, and thus further enhancing yield stability and risk resilience of its assets in general.

During the first half of 2020, despite the adverse effects brought by the COVID-19 pandemic, the Bank's financial markets business, through careful planning, seized opportunities and remained focused on overcoming the severe market situation. As a result, it continuously improved its profitability, capital-light development ability and differentiated competitive strength. For the six months ended 30 June 2020, the Bank's financial markets business segment recorded operating income of RMB13.9 billion, representing a growth of 44.8 per cent. year-on-year, accounting for 14.3 per cent. of the Bank's total operating income. For the year ended 31 December 2019, the Bank's financial markets business segment recorded operating income of RMB18.1 billion, accounting for 10.2 per cent. of the Bank's total operating income. For the six months ended 30 June 2020, net non-interest income from financial markets business amounted to RMB9.9 billion, representing an increase of 68.8 per cent. year-on-year, accounting for 27.5 per cent. of the Bank's total net non-interest income. For the year ended 31 December 2019, net non-interest income from financial markets business amounted to RMB11.1 billion, representing an increase of 32.4 per cent. year-on-year, accounting for 19.1 per cent. of the Bank's total net non-interest income.

Interbank Business

The Bank has continued to expand the scope of its business cooperation with other banks and financial institutions after achieving full coverage of mainstream financial institutions. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's balance of financial interbank assets (including deposits and placements with, and loans to banks and non-bank financial institutions) amounted to RMB251.7 billion, RMB222.3 billion, RMB273.4 billion and RMB279.3 billion, respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's balance of financial interbank liabilities (including deposits and placements from banks and non-bank financial institutions) amounted to RMB833.3 billion, RMB854.3 billion, RMB997.7 billion and RMB1,014.6 billion, respectively.

The Bank launched the "CITIC Interbank+" platform online in the first half of 2017. It is a one-stop interbank financial service platform that integrates traditional finance and the internet. The platform mainly serves small and medium-sized financial institutions such as urban commercial banks, rural commercial banks, rural credit cooperatives, and at the same time covers other financial institutions including joint stock banks, securities, funds, trusts, insurance, futures, financial leasing and finance companies. The Bank continued to research and develop new products and optimise existing functionalities of the "CITIC Interbank+" platform, resulting in constant improvements to customer experience. As at 30 June 2020, the Bank had 2,170 accounts of contracted interbank legal-person customers, an increase of 9.5 per cent. compared with the end of 2019.

In September 2018, the Bank launched "Xin Miao Tie" ("信秒貼"), an innovative self-service electronic discounted bill product. "Xin Miao Tie" had 5,270 accounts of subscribed customers as at 30 June 2020 and recorded an annual transaction volume totalling RMB71.3 billion in 2019, making the product an effective high-quality tool to serve small and micro businesses.

Asset Management Business

The Bank officially started the operation of its Asset Management Business Centre in 2017. The centre is structured as a business department with a corporate operation model, and is relatively independent in business risk review and approval, personnel and remuneration management, and financial resources allocation.

The Bank steadily promoted the transformation of its asset management business as per the requirements in the "Guidelines of the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and State Administration of Foreign Exchange on Regulating Asset Management Business of Financial Institutions" ("中國銀保監會關於信銀理財有限責任公司開業的批覆", CBIRC Release [2018] No.106). On the product side, the Bank intensified the refined management of product lines and services, accurately grasped the wealth management needs of target customers, developed competitive public and private wealth management products, and sharpened the differentiated competitiveness of products. On the investment side, the Bank built the industry-leading investment research platform, and continuously improved the return on the investment portfolio on the premise of controllable making risks, thereby creating greater value for investors. In addition, the Bank improved the relevant policy system, streamlined the organisational structure, speeded up the IT system building, upgraded its product structure, strengthened its investment capabilities, consolidated the talent team, cultivated the corporate culture, and thereby comprehensively improved its governance capabilities in all aspects.

As at 30 June 2020, non-risk-bearing wealth management products of the Bank amounted to RMB1,152.8 billion, an increase of 4.5 per cent. compared with RMB1,103.3 billion as at the end of 2019. For the six months ended 30 June 2020, income from its wealth management business increased by RMB0.5 billion year-on-year to RMB2.5 billion. For the year ended 31 December 2019, income from the Bank's wealth management business amounted to RMB1.1 billion.

Other Financial Markets Business

The Bank actively conducts money market transactions such as Renminbi interbank lending/borrowings and bond repos, performs its duties and responsibilities as a primary dealer at the open market, and fully leverages money market tools such as interbank certificates of deposit to meet business needs for liquidity, while improving the operational efficiency of its short-term capital. As at 30 June 2020, the Bank processed a total transaction volume of RMB13.6 trillion and during the six months ended 30 June 2020 the Bank issued RMB230.1 billion of interbank certificates of deposit.

The Bank offers relevant targeted multilayer solutions for exchange rate risk management to meet its corporate customers' needs for financing and value appreciation, cross-border merger and acquisition, hedging forex receipts and payments and Renminbi and foreign currency denominated assets and liabilities management. The Bank has developed innovative exchange rate product portfolios including forex trading, spot and forward forex purchase and sale, swaps, options and others. For the six months ended 30 June 2020, the Bank achieved RMB4.6 trillion of forex market making trading volume, ranking as the third largest spot comprehensive market maker in the interbank forex market according to data of the China Foreign Exchange Trade System and National Interbank Funding Center. For the year ended 31 December 2019, the Bank achieved RMB31.8 trillion of forex market making trading volume.

The Bank is a qualified market maker for the direct trading of Renminbi against the South African rand, the Canadian dollar, the Danish krone, the Norwegian krone, the Swedish krona and other minor currencies in the domestic interbank foreign exchange market.

The Bank continues to promote the development of its precious metals leasing and proprietary trading business. The Bank further improved its precious metals business system with its precious metals retail products such as "Ji Cun Jin", "CITIC Collection" and "CITIC Investment" accounts. As one of the first batch of gold inquiry market makers on the Shanghai Gold Exchange, the Bank actively fulfils its responsibilities as a market maker and provides liquidity and bilateral quotations for the market.

Other Businesses

For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Bank's other businesses segment recorded operating income of RMB4.7 billion, RMB3.7 billion, RMB3.3 billion RMB2.0 billion and RMB2.0 billion, respectively, accounting for 3.0 per cent., 2.2 per cent., 1.8 per cent., 2.2 per cent. and 2.0 per cent. of the Bank's total operating income, respectively.

Integrated Financial Services

The Bank places equal importance to its financial services and non-financial services business and encourages cooperation between different business segments to achieve synergy. The Bank continues to share and cooperate with other financial services subsidiaries of CITIC Group in relation to product offerings, distribution channels, customer resources, thereby expanding its business to other areas such as securities, insurance, fund, trust, futures, and leasing to meet diversified financial needs of its customers. By leveraging on CITIC Group's full-licence financial platform, the Bank is well-positioned to provide its customers with comprehensive financing services.

The Bank's business synergy with CITIC Group acts as a bridge for the Bank in achieving the development vision of becoming an enterprise offering the best comprehensive financial services, in connection with which the Bank has identified four areas of focus:

- *Synergy at the top-level of design* – Fully implementing the strategy of intra-group synergy, the Bank developed synergy initiatives which accelerated synergy mechanism reform from organisational support, system building, incentive mechanism, system support, resource integration, etc. to assist with the development of its banking business.

- "*Financial and financial*" *collaboration* – As at 30 June 2020, the Bank successfully implemented 358 coordinated projects with CITIC Securities, China Securities, CITIC Trust, CITIC Prudential Life Insurance Co., Ltd. and other financial subsidiaries of CITIC Group. The financing products covered bond underwriting, equity investment and trust plan, and cumulatively provided joint financing of RMB361.5 billion for customers.

- "*Industrial and financial*" *collaboration* – The Bank leverages the advantages of the "CITIC United Fleet" and provides integrated and targeted solutions to meet customers' diverse needs based on the full-chain advantages of CITIC Group in the industry. It seized new opportunities in regional development and participated in the mixed ownership reform of state-owned enterprises together with CITIC Group's industry subsidiaries. It also made more efforts in underwriting of and investment in anti-pandemic bonds to support enterprise in pandemic control and the resumption of work and production resumption.

- *System building* – The Bank expedited the digital transformation, and actively pushed forward the development of related synergy systems. The Bank is actively developing its matchmaking platform that could provide such functions such as information collection and distribution, project collaboration and matchmaking, and collaborative information sharing, and has provided systematic support for advancing the management of CITIC Group's synergy platform empowered by technology.

Internet Finance Business

The Bank uses big data technology to perform data mining and analysis based on the characteristics of its online customers, and undertakes customer management based on different customer profiles. Such data analysis enables the Bank to optimise its product design, and improve both its marketing and level of customer engagement.

The Bank is focused on developing its mobile banking services. In the first half of 2017, the Bank launched an online platform for the transfer of wealth management products, and offered online services including listing, product quotation and transfer of products to satisfy its customers' needs for flexible wealth management.

DISTRIBUTION CHANNELS

As at 30 June 2020, the Bank had outlets in 151 cities in the PRC. In addition, the Bank is continuously promoting the use of electronic banking channels, such as Internet banking and mobile banking. The Bank is able to provide its customers with efficient banking services through its extensive network of branch outlets and electronic banking channels.

The table below sets out the Bank's deposits from customers by geographical region as at 30 June 2020.

Region	Balance	Proportion
	RMB million	*% of total*
Head Office	7,959	0.2
Bohai Rim	1,124,872	25.0
Yangtze River Delta	1,224,287	27.3
Pearl River Delta and West Strait	771,537	17.2
Central	564,064	12.6
Western	448,139	10.0
Northeastern	93,398	2.1
Overseas	250,209	5.6
Total	**4,484,465**	**100.0**

Physical Outlets

As at 30 June 2020, the Bank had 1,397 outlets in 151 large and medium-sized cities in the PRC, including 37 tier-one branches which are directly managed by its head office, 124 tier-two branches, and 1,236 sub-branches, including 38 community, small and micro sub-branches. As at 30 June 2020, more than 70 per cent. of the Bank's outlets were concentrated in eastern and central China. As at 30 June 2020, CNCBI, an affiliate of the Bank, had 35 outlets and 2 business centres in Hong Kong, Macao, New York City, Los Angeles, Singapore and the PRC. As at 30 June 2020, JSC Altyn Bank, a subsidiary of the Bank, had seven outlets and one private banking centre in Kazakhstan.

The Bank's London Branch, upon approval of the Prudential Regulation Authority and the Financial Conduct Authority of the UK, opened for business on 21 June 2019. The Bank's London Branch is the Bank's first overseas branch directly managed by the head office, and is mainly engaged in wholesale banking. It provides comprehensive financial services including deposits, lending (including bilateral lending, syndicated lending, trade finance and cross-border merger and acquisition finance), foreign exchange and payment settlement, and conducts money market and foreign exchange trading businesses. During the first half of 2020, the Bank's London Branch conducted extensive business cooperation with domestic and overseas corporate customers and financial institutions. It continued to expand offshore Renminbi trading, corporate syndicated loans, cross-border merger and acquisition financing and other business areas, and handled foreign exchange transactions on the European time-zone trading platforms on behalf of the head office, laying a solid foundation for the Bank to build a global 24-hour foreign exchange trading platform. Relying on the advantages of London as an international financial centre, the Bank will build its London Branch into the business centre of the Bank in Europe, the Middle East and Africa, thereby creating its European treasury operation centre, the international talent training centre, CITIC Group's overseas business coordination platform, and the Bank's important overseas base to serve the "Belt and Road Initiative".

Online Outlets

As at 30 June 2020, the Bank had 48.8 million accounts of mobile banking customers and 10.9 million monthly active mobile banking users, an increase of 6.5 per cent. and 17.3 per cent. compared with the end of 2019, respectively. As at 30 June 2020, the Bank's mobile banking services processed mobile banking transactions volume and value of 119 million and RMB5.0 trillion, respectively, representing an increase of 8.3 per cent. and 22.9 per cent. year-on-year, respectively. The Bank's personal online banking continues to develop steadily. As at 30 June 2020, the Bank had 50.0 million accounts of personal online banking users, representing an increase of 6.2 per cent. year-on-year.

For the six months ended 30 June 2020, the Bank's Credit Card Customer Service Centre handled 47.3 million calls, and achieved a 98.6 per cent. and 95.8 per cent. customer satisfaction rate for general enquiries and complaints handling, respectively. For the six months ended 30 June 2020, the Bank's Debit Card Customer Service Centre handled 22.8 million calls, and achieved a 98.8 per cent. and 99.9 per cent. customer satisfaction rate for general enquiries and complaints handling, respectively.

Subsidiaries and Joint Ventures

Set out below are the Bank's subsidiaries and other joint ventures which the Bank is engaged in:

- **CITIC International Financial Holdings Limited** is a wholly-owned subsidiary of the Bank. Its main business scope includes commercial banking and non-banking financial services, and serves as the Bank's main platform for conducting overseas business.

- **CNCB (Hong Kong) Investment Co., Ltd.** is 99.05 per cent. owned by the Bank. Its main business scope includes lending (it holds a Hong Kong money lender licence), investment (mainly debt securities investment, fund investment, stock investment and long-term equity investment), and the conduct of overseas licensed investment banking business and domestic equity investment fund management business via its own subsidiaries.

- **CITIC Financial Leasing Co., Ltd.** is a wholly-owned subsidiary of the Bank. It is mainly engaged in the business of provision of financial leasing services.

- **CITIC aiBank Corporation Limited** is 65.7 per cent. owned by the Bank. It is an innovative internet bank jointly established by the Bank and Baidu.

- **Zhejiang Lin'an CITIC Rural Bank Limited** is 51 per cent. owned by the Bank. It is mainly engaged in general commercial banking business.

- **JSC Altyn Bank** is 50.1 per cent. owned by the Bank. It engages in banking business in Kazakhstan.

- **CITIC Wealth Management Corporation Limited** is a wholly-owned subsidiary of the Bank. It mainly engages in wealth management-related business such as the issuance of public and private wealth management products, and wealth management consultation and advisory service.

RISK MANAGEMENT

Overview

The Bank aims to provide the best comprehensive financial services to improve the standard of its management. The Bank is committed to establishing a "comprehensive, unified, independent and professional" risk management system. By cultivating a risk management culture and awareness of compliance management, as discussed below, the Bank implements an overall risk management scheme, with each member's responsibilities clarified, the relevant core IT improved, and the risk management abilities enhanced by quantifying and qualifying the risks.

Risk Management Culture

The Bank upholds its core principle of "strict compliance to standard, strengthened responsibilities, focus on enforcement, active management and creation of value" to establish a risk management culture with comprehensive coverage.

- ***Strict compliance to standard***

  The Bank requires all members to stringently comply with the legal and regulatory requirements, execute the risk management instructions of the head office and uphold professional ethics, such that the Bank complies with its internal standards in the legal, regulatory and risk aspects of its business.

- ***Strengthened responsibilities***

  The Bank has a clearly defined the unit which is responsible for risk and regulatory management and clarifies the responsibilities of each member of it, including executing internal due diligence and follow-up investigations and measures for any violation.

- ***Focus on enforcement***

  The Bank strictly executes each policy, such that orders are immediately enforced when given. The Bank optimises and adjusts the procedures and processes of the systems in a timely manner, taking the initiative in discovering, exposing and eliminating risks.

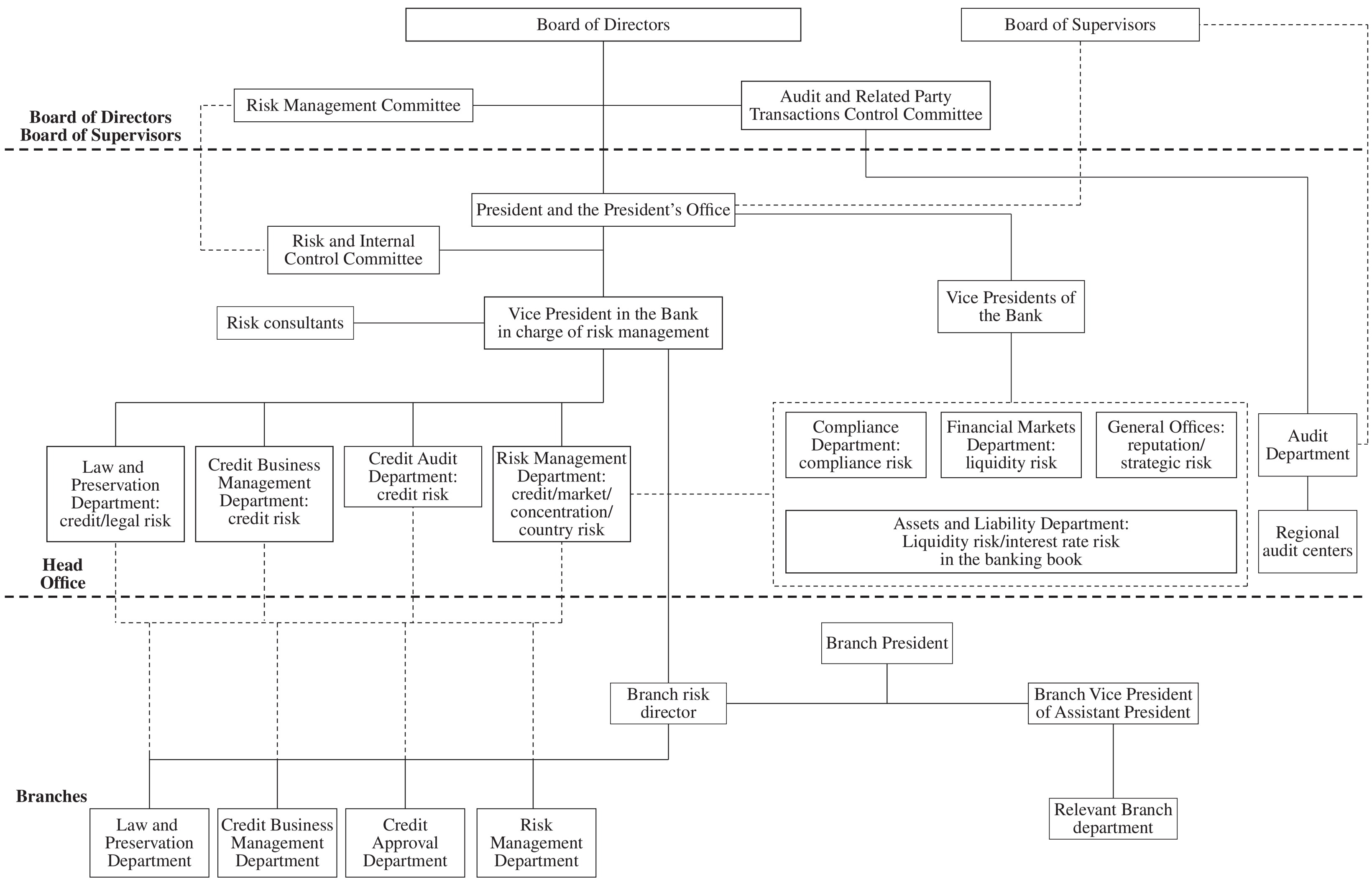
- ***Active management***

  The Bank applies various measures to actively manage risks, increasing the risk management support to product innovation, business development and strategic transformation, thereby accomplishing the transformation from risk control to risk management.

- ***Creation of value***

  The Bank balances its risks against its capital, profit, development and innovation aspects, improving its coordinated development in the aspects of efficiency, quality and scale. These risk management aspects will therefore create value for the Bank.

The following chart sets out the Bank's risk management structure:



Board Level

(i) Risk Management Committee

The risk management committee is composed of four directors, including two independent non-executive directors. It has the following primary responsibilities: (i) supervising the Bank's senior management's risk control on credit, liquidity, market, operational, compliance and reputational risks; (ii) evaluating risk preference, credit policy, policies on the management of various types of risks, risk management status and risk tolerance of the Bank on a regular basis; (iii) proposing suggestions to the board of directors on how to improve the Bank's risk management and internal controls; and (iv) comprehensively managing the risk of money laundering across the Bank.

(ii) Audit and Related Party Transactions Control Committee

The audit and related party transaction control committee consists of three independent non-executive directors. It is primarily responsible for: (i) inspecting the risk profile and compliance status, accounting policies and practices, financial reporting procedures and financial position of the Bank; (ii) reviewing the Bank's financial monitoring, internal control and risk management systems; (iii) reviewing the connected transactions system and making relevant recommendations to the board of directors; and (iv) supervising the implementation of the related party transactions system.

Head Office Level

- Risk and Internal Control Committee

  The Tier 1 Risk and Internal Control Committee is responsible for: (i) reviewing the risk management and internal control system of the branches; (ii) reviewing the relevant risk management and internal control systems within the limits of branches' authority; (iii) reviewing risk transfer authorisation strategies and risk limit strategies of branches; (iv) reviewing major issue reports of risk management and asset quality control from branches; and (v) finalising annual business plans. The Risk and Internal Control Committee conducts an overview of the performance every six months, and reports to the Risk Management Committee of the head office. The Risk and Internal Control Committee of the Group is responsible for approving market risk management policies, establishing appropriate organisational structure and information systems to effectively identify, measure, monitor and control market risks, and ensuring adequate resources to reinforce market risk management.

- Risk Management Department

  The risk management department is responsible for independently managing and controlling market risks of the Group, including developing market risk management policies and authorisation limits, providing independent report of market risk to identify, measure and monitor the Group's market risk. Meanwhile, business departments are responsible for the day-to-day management of market risks, including effectively identifying, measuring, controlling market risk factors associated with the relevant operations, so as to ensure the dynamic balance between business development and risk undertaking.

Branch Level

- Branch Risk Director

  The branch risk director is responsible for the overall risk management of the branch. He is also in charge of implementing the relevant policies, systems and authorisation rules made by the head office at the branch level, organising the decision-making in implementing the risk management details and major risk limits, as well as managing the quality of credit assets, collecting problematic assets and other risk management related work. The branch risk director is appointed by the head office, and he or she reports to the head risk director and manager of the branch.

Credit Risk Management

Credit risk is the risk that a borrower or counterparty cannot fulfill their obligations under a relevant agreement or contract. The credit risk of the Bank comes from various types of credit business, including, but not limited to, the business of internal and external credit lines such as loans, guarantees, acceptance and loan commitments, business from bank account bonds investment and derivative products, as well as other businesses incurred by structured financing and financing financial management.

In order to manage credit risk, the Bank has adopted standardised credit granting policies and processes throughout the Bank. The risk management department and the credit authorisation management department, together with other relevant departments, regularly review and update these policies and procedures.

The overall credit policy adopted by the head office provides credit guidance based on industry, customer and product types. The risk management department reviews and updates these credit policies annually. Each tier branch may adopt more specific rules based on the policies of the head office. The credit authorisation process for both corporate loans and personal loans reflects the Bank's core principle of separating the risk management function from the counter business. This process can be broadly divided into three phases: (i) launch and analysis of credit; (ii) credit approval; and (iii) fund lending and post-loan management.

Credit Risk Management for Corporate Loans

The Bank imposes various risk control mechanisms during the credit extension process for its corporate loans, using different people and departments. The Bank has established the practice of pre-and post-disbursement risk management in its corporate loans business. Before the credit extension, the Bank goes through an applicant access approval process in relation to the basic credit quality of the customer, and provides professional opinion on professional products that require credit review. The Bank's business departments then organise and guide the branches and operational units to carry out post-disbursement responsibilities, including risk review, risk warning and managing customers that voluntarily withdrew from the credit.

- *Product Managers*

  Product managers are experienced in identifying risks associated with credit products and work with the relationship manager in the credit investigation process and the post-disbursement management.

- *Credit Approval Personnel*

  The credit approval personnel would issue an independent review opinion based on the investigation and public pre-credit-approval information collected. The report would be submitted to the Credit Approval Committee for review and approval.

- *Disbursement Centres*

  Disbursement centres are separated from front offices and are responsible for ensuring all disbursement conditions are met, thereby reducing operational risks.

- *Dedicated Credit Management Department*

  The dedicated credit management department in each branch is responsible for monitoring the implementation of post-disbursement management.

- *Professional Legal and Internal Counsel Department*

  The professional legal and internal counsel department manages non-performing assets.

(i) Credit Origination and Analysis

The initial step in the credit extension process consists of screening by the Bank's relationship managers, who either interview credit applicants approaching the Bank or proactively solicit creditworthy prospective customers. Upon completion of this screening, the credit investigation team, consisting of a relationship manager and a product manager, will conduct a preliminary due diligence on the applicant.

The Bank's credit investigation team then assists the prospective customer with preparing an application package, and inputs the information obtained from the application package into the Bank's internal credit rating system for a credit rating, if applicable.

Based on the application package and the credit rating, the credit investigation team will prepare a due diligence report containing an assessment of the borrower's credit risk, major areas of risk, ability to make repayment, and a proposal for credit extension. The credit investigation team then submits the due diligence report, the application package and the credit rating to the credit assessment unit under the risk management department for review by credit review staff and dedicated credit approval officers.

The Bank conducts a valuation of on the underlying collateral in connection with credit applications for secured loans. Generally, the Bank retains independent appraisers to evaluate the collateral for loans other than residential mortgage loans and new automobile loans. If the collateral becomes the subject of a legal dispute or significant changes occur which may adversely affect the value of the collateral, the Bank immediately re-appraises the value of the collateral and will seek additional collateral if necessary.

For loans guaranteed by third parties, the guarantor's financial condition, credit history and ability to meet its obligations are evaluated according to the same procedures and criteria used for the primary obligor.

(ii) Credit Approval

In principle, following the procedures of the credit approval committee, all types of credit extensions and related business in the financial statements must be approved by the relevant credit approval committee. Certain low-risk credit businesses can be approved by an authorised credit approver without going through the credit approval committee.

- *Credit Authorisation Limits*

  Each branch is subject to a credit authorisation limit it may commit to any single borrower or, to the extent identifiable and practical, any group borrower. Each credit application is required to be approved by the credit approval committee that has the required credit authorisation limits. If the proposed credit line exceeds such committee's authorisation limit, the credit application is required to be submitted directly to an upper level committee with the required authority.

  Credit authorisation limits are reviewed at least once every year by the Bank's head office.

- *Credit Approval Committee Meeting Procedures*

  Credit approval committee meetings are held at the Bank's head office, tier-one branches and selected tier two branches. Depending on the authorisation, the applications shall be submitted to credit approval committees at different levels for approval.

  The majority of committee members attending credit approval committee meetings are from the risk management committee, with no more than two attendees from business lines. The president of the Bank and the Bank's branch presidents have the power to exercise veto rights on credit applications approved by the credit approval committee.

(iii) Disbursement and Post-disbursement Management

- *Funds Disbursement*

  The Bank established disbursement centres in 2003 to reduce operational risks during the disbursement process. After a credit application is approved, funds are disbursed centrally through a disbursement centre in tier-one branches where loans were originated. The disbursement centre does not disburse funds unless the disbursement conditions are satisfied.

- *On-going Credit Monitoring*

  Credit monitoring is an integral part of the Bank's credit risk management, and the Bank's credit management department performs a critical role in loan monitoring, which is dedicated to supervising the credit investigation team in post-disbursement management and carrying out periodical examinations of the status of certain loans classified as "pass" and "special mention".

  The operational, business and credit grant management departments are responsible for on-going monitoring of loans to detect any signs of potential delinquency at an early stage and to facilitate prompt remedial action. The Bank focuses on factors that might adversely affect the borrower's ability to make repayment, including (i) the borrower's overall credit risk profile, including levels of the borrower's accounts receivable and inventory, changes in operating cash flow, and capital outflows not in the ordinary course of business; (ii) use of proceeds of the loan; and (iii) the status of any security interests.

  The operational departments gather information on the status of the Bank's corporate loans through both on-site visits and off-site investigations. The Bank conducts post-disbursement examinations of borrowers at intervals determined based on the classification of the loan. For loans classified as "pass", the Bank conducts such examinations every three months; and for loans classified as "special mention", the Bank conducts monthly examinations. "Special mention" loans and NPLs are transferred to the legal and special asset resolution department for administration.

  Through the Bank's on-site visits and off-site investigations, if the Bank becomes aware of an event which could significantly and adversely affect a borrower's ability to make payment, such an event is required to be immediately categorised as one of two types of early warning: general warning or special warning, based on the risk level. Events reported as special warning include significant deterioration of financial condition and material property disputes. Once identified, all early warnings are required to be reported to the credit grant management department at the head office and branch levels, and in the case of an early warning that is required to be handled on an urgent basis, to the relevant branch manager as well. The early warning will then be categorised as general or special, and relevant resolution measures will be implemented accordingly. The credit grant management department is required to conduct an immediate review of the credit quality and repayment ability of the borrower concerned and monitor or work with the front office departments to take appropriate preventive measures, which may include adjusting the credit line, suspending drawdowns, acceleration of due dates, loan collection, and requesting additional security interests or third-party guarantees, as applicable. The Bank generally prohibits the granting of additional credit to a borrower until early warnings are removed. Borrowers in the category of special warning are put on a "watchlist". The Bank is required to adopt measures to terminate all credit business relationships with the borrower on a "watchlist" and is prohibited from granting new credit facilities to such borrowers.

- *Loan Classification*

  The Bank measures and manages the quality of its credit assets pursuant to the Guidelines on the Classification of Loan Risks issued by the CBIRC. The guidelines require PRC commercial banks to classify their credit assets into five classes, namely "pass", "special mention", "substandard", "doubtful" and "loss", of which the last three classes are regarded as NPLs. With regard to loans with material changes in risk profiles, the Bank will adjust their classification accordingly.

The Bank has continued to reinforce the centralised management of loan classification and enhance the system of managing credit asset risks by class. While adhering to the core criteria of "safety of loan recovery", the Bank treated different classes of loans with different risk management measures after taking into full consideration various factors that may impact the quality of credit assets.

The Bank strictly applies to its procedure for the classification of loan risks which includes the following steps: (i) business department to conduct post-lending inspections; (ii) the credit department to provide preliminary opinions, to be followed by preliminary risk identification by the credit management department; (iii) chief risk officers to review the preliminary identification results; and (iv) the head office to finalise the identification.

- *Administration of Non-performing Assets*

The Bank's legal and internal counsel department administers its non-performing assets and certain other special assets, such as foreclosed assets. The legal and internal counsel department seeks to maximise recovery of the Bank's non-performing assets in a cost-effective manner. The Bank has set up legal and internal counsel departments at the head office and various tier-one branches. For branches without a legal and internal counsel department, the Bank has trained personnel, who are specialised in the administration and recovery of non-performing assets, to carry out such duties at the risk management department of the branch.

Non-performing assets are transferred to the Bank's legal and internal counsel department for administration and recovery in accordance with the recovery procedures. A collection officer formulates a proposal for recovery, which will then be submitted to the credit approval committee for approval. The recovery proposal is subject to approval by the president of the relevant branch, and reviewed by the legal and internal counsel department of the Bank's head office before being approved by the credit approval committee. The head office's legal and internal counsel department will supervise the branch-level legal and internal counsel department on the implementation of the final decision on recovery.

In terms of local government financing vehicle loans, the Bank puts the total amount of the loans under strict control to carry out government financing businesses, pursuant to the principle of "orderly development, structural optimisation and categorised management". The Bank provides priority support to the implementation of major national strategies and key construction projects, ensuring the financing needs of projects relating to government procurement of services and PPP projects that have secure sources for loan repayment are satisfied.

With regard to real estate financing, siding with the Central Government's principle that "houses are to be inhabited, not speculated" promulgated at the 19th National Congress of the Communist Party of China, the Bank upholds the lending principle of "quantity control, investment optimisation and management strengthening". Regionally, the Bank strengthens its analysis of the trends of the national and regional market risks, practices individualised policies in granting property loans according to the characteristics of different regions in the PRC, and actively implements the government policy on reducing property inventory under the premise of effective risk control. To cultivate high quality customers, the Bank manages property development loans by name list, whereby only clients proven to be financially sound and with adequate cash flows are granted loans. The Bank prefers to partner with industry leaders that are competitive, have rich experience in development, own influential brands and have healthy and stable performance. In terms of project distribution, the Bank supports commercial housing projects targeting rigid demand and improved housing needs, and favours renovation projects of shanty towns and urban-rural transition that have resourceful shareholders and superior locations. Strict control is placed on development financing for office building projects.

With regard to loans to industries with overcapacity, the Bank has made proactive efforts to implement the government policy on supply-side reform and reducing overcapacity. According to the principle of "strict total quantity control, differentiated treatment, optimal solution to existing capacity and risk control", the Bank supports overcapacity industries such as coal and non-ferrous metals in their efforts to cut overcapacity and extricate from their predicament. It is the Bank's credit policy to discontinue financial support to dormant entities and enterprises with backward production capacities to properly and orderly dissolve inventory risk and eliminate backward production capacity enterprises that failed to comply with national industrial policies and/or environmental protection and safety standards. For industries suffering severe overcapacity, such as iron/steel, cement, ship building, plate glass and electrolytic aluminium, the Bank implemented individualised authorisation management: for loan applications from customers on the name list verified by the head office, the Bank's branches will be responsible for the review and approval of the loan; for customers not on the name list, the head office would be directly responsible of the review and approval process.

With regard to loans to small and micro enterprises, the Bank follows the government's industry policies and refers to its own strategic plan and the overall development direction of its corporate banking business as guidance. The Bank selects high-quality small and micro enterprises that are willing and able to repay loans, robust in operation, promising in growth, stable in cash flow and sustainable in business operation as its customers. Big data and industrial analysis are used to reinforce the risk assessment and monitoring of small and micro enterprise borrowers to balance business development and risk control of such loans.

Credit Risk Management for Personal Loans

In response to changes in the macro economic situation and regulatory requirements, the Bank strictly implements the Chinese Government's policy on macro regulation and control to ensure operational compliance and risk management of its personal loan business. The Bank manages its risk proactively by implementing risk management procedures at early stages, such as embedding risk prevention and control elements in the course of product creation and process design. The Bank has strict controls on credit and operational risks by creating standardised products through centralised and automated processes. In addition, the Bank has constructed a personal credit risk measurement system and has promoted the development and application of personal credit scorecards to enhance automation of the review and credit approval process for personal loan products. At the same time, the Bank has reinforced its monitoring and control over non-performing personal loans and stabilised the quality of personal loan assets by constructing a platform to manage problematic assets and conducting business re-examination.

(i) Credit Origination and Analysis

The Bank initiates the credit extension process with a comprehensive background analysis of applicants, including the basic requirements of investigating applicants' credit reports and interviewing them in person, with supplemental interviews over the telephone. Site visits may also be carried out depending on the nature of the loan product.

It is the Bank's principle to have both the interview with the credit applicant and the signing of the documents conducted in person. The Bank's investigators negotiate all loans while verifying the loan information in person with the stakeholders such as the borrower and the guarantor. All application and legal documents in relation to the loan are signed in person by the stakeholders (or any authorised person or notaries).

The Bank assesses applicants based on the integrity of the credit information provided, including the applicant's income, credit history, ability to repay the loan and the value of the collateral securing the loan. The Bank will then issue a comprehensive investigation report based on the analysis.

(ii) Credit Approval

Personal loans are evaluated and approved by the authorised persons in accordance with the authorisation requirements of the head office. There are persons responsible for credit approval in each branch level credit grant management department. The persons responsible would analyse, signal, review and assess any credit, operational and collateral realisation risks etc in relation to the loans.

The Bank primarily relies on information provided by the applicant and obtained through its investigation as the basis for extending personal credit. If the applicant's credit profile is recorded in the PBOC's credit information system, the Bank will also consider credit information from such system. In addition to the credit history and reports of the applicant, an analysis on the source of repayment would be conducted based on proof of income and evaluation on securities. There will also be an analysis on the debt profile and assets realisation ability of the applicant and his or her family, and an analysis on the authenticity of the purpose of the loan.

(iii) Disbursement and Post-disbursement Monitoring

The Bank monitors post-disbursement personal loans through system investigation and regular, real-time manual intervention, with the focus being the borrower's repayment ability and willingness. The first investigation happens within 15 to 30 days after disbursement of a loan. The Bank would send to the client text reminders on three days and one day before the repayment date. Within 30 days after any outstanding personal loan becomes overdue, the Bank carry out centrally its collection responsibilities through the head office, and the branches would carry out their respective collection responsibilities accordingly. For any loan that is overdue for more than 30 days, the Bank's collection personnel would follow the management measures to regularly deliver notices in relation to collection of overdue payment, acceleration of debt and demand notes etc and would report the status of collection to the personal loan department at the head office. The Bank's legal and special asset resolution department is responsible for receiving the overdue loans delegated from the personal loan department and would follow up with litigation and provide legal support at an early stage of the high-risk collection responsibilities.

The COVID-19 pandemic affected the balance of non-performing personal loans increased during the first half of 2020. As at 30 June 2020, the Bank's non-performing balance of personal loans (excluding credit card loans) amounted to RMB8.5 billion, representing an increase of RMB2.3 billion from 31 December 2019.

Credit Risk Management for Credit Cards

In managing risk in its credit card business, the Bank follows the principle of "structural adjustment, risk control and increased profitability". It has reformed its risk policy framework, and has constructed a robust "multi-dimensional full-life cycle" risk measurement and management platform. The Bank uses big data in the application of its credit card risk measurement tools. It has continually made improvements to the early warning and monitoring system to strengthen the monitoring and research of demographic groups with unexposed risks to monitor and analyse the risk trends of different regions, and release risk reminders in a timely manner. As a result, the Bank is able to achieve the dynamic and scientific allocation of resources and promote continuous optimisation of its asset structure. The Bank has also deployed innovative means to dispose of assets, such as the use of non-performing asset conversion and credit insurance compensation to diversify the means to resolve non-performing assets.

During the first half of 2020, the credit card industry was adversely affected by the COVID-19 pandemic and economic slowdown. In response, the Bank strengthened its joint risk control system before, during and after lending. In the pre-lending access, the Bank tracked credit risk changes in new cardholders dynamically in a multi-dimensional manner by moving risk management forward to earlier stages, enhancing the application intake management, tightening the customer onboarding criteria and fully tapping into internal and external data. Regarding the risk control in the lending process, the Bank strengthened dynamic limit management and improved the allocation of credit resources by building a multi-dimensional rating management system, and conducted special screening and crackdown campaigns against high-risk customers and non-compliant credit card usages like cash-out. Regarding the post-lending recovery of non-performing assets, the Bank fulfilled its corporate social responsibilities by deferring the repayment of principal and interest for customers badly affected by COVID-19 and stepping up the disposal of non-performing assets. As at 30 June 2020, the Bank recorded RMB12.0 billion in non-performing credit card loans.

Risk Management in Wealth Management

The Bank has complied with all applicable regulatory policies in relation to, and continues to implement risk limit management on its wealth management business, in line with the development trend of the asset management industry to capital-light development and to manage risks in isolation. The Bank supports strategic emerging industries, the energy sector, the high-end service sector, and the medical industry with their financing needs. Its financing also supports the transition of the traditional manufacturing industry, the high-end manufacturing industry, "Belt and Road Initiative" projects, urbanisation, affordable housing, shanty town renovation, land rectification and industrial park development.

Risk Management in Financial Markets Business

The Bank has conducted its negotiable securities investment business prudently to manage its overall debt securities investment risk. For Renminbi debt securities investments, the Bank mainly invests in PRC enterprises who are leading market players in their respective industries. For foreign currency denominated debt securities investments, the Bank mainly invests in debt securities issued overseas by high quality PRC issuers.

The Bank closely monitored the overall impact of the COVID-19 pandemic and other external events on the financial markets business. The Bank continuously improved the risk prevention and control mechanism, regularly reviewed key industries and businesses affected seriously, effectively carried out risk screening and control, formulated effective asset adjustment plans according to specific scenario analysis and implemented these plans adequately.

Liquidity Risk Management

Liquidity risk refers to the risk that the Bank is unable to obtain adequate capital in a timely manner and at reasonable cost to repay matured debts, perform other payment obligations and meet other capital needs to conduct its normal business.

The Bank has set up a robust structure for liquidity risk management, which clearly defines the division of duties among the board of directors, the board of supervisors; the senior management and their subordinate specialised committees, as well as other relevant departments within the Bank. The Bank has also implemented clear strategies, policies and procedures on liquidity risk management. The Bank maintains a steady liquidity risk level, and is able to effectively identify, measure, monitor and control liquidity risk through its prudent and coordinated liquidity risk management strategy.

The Bank has put in place a uniform liquidity risk management framework. The head office is responsible for formulating liquidity risk management policies and strategies of the Bank. Domestic and overseas affiliates of the Group are responsible for developing their own strategies and procedures for liquidity risk management and implementing them pursuant to the requirements of competent regulators and within the Group's master policy framework on liquidity risk management. The Bank has made proactive efforts to promote and reinforce liquidity risk management, and to maintain sufficient liquidity overall.

Market Risk Management

The main market risks that the Bank faces include interest rate risk and exchange rate risk. The Bank has established a market risk management system covering risk identification, measurement, monitoring and control. Market risk is managed through the Bank's product access approval process and risk limit management, which enables the Bank to control potential losses arising from market risks within an acceptable level and maximise risk-adjusted returns.

Interest Rate Risk

Interest rate risk refers to the risk of losses to the overall earnings and economic value of bank accounts resulting from unfavourable changes in factors such as interest rate and maturity structure. It includes repricing risk, yield curve risk, benchmark risk and option risk. The Bank has a prudent risk preference and ensures that adverse impacts of interest rate movements on the Bank's profit and value are controllable.

To date, the Bank has sought to optimise its risk monitoring indicators, and at the same time has made comprehensive use of multiple methods including interest rates sensitivity gap analysis, net interest income sensitivity analysis and stress testing to measure various types of interest rate risk, analyse risks and project net interest income on a regular basis. In addition, the Bank has applied active management means such as price control and regulation to build market-oriented pricing, further promoted the use of loan prime rate, and set up maturity structures and product mixes of its asset and liability portfolios. For interest rate risk in connection with trading in bonds and interest rate derivatives, the Bank has set risk limits such as price value of a basis point and market value stop-loss, and made use of value at risk and stress testing for risk analysis and management.

Exchange Rate Risk

Exchange rate risks refers to the risk of incurring losses due to unfavourable changes in exchange rates. The Bank manages exchange risk by matching foreign currency denominated assets with liabilities denominated in the same currencies and by making use of derivative financial instruments. For businesses with potential exchange rate risk such as forex purchase and sale and forex trading, the Bank sets corresponding foreign exchange exposure limits to control its exchange rate risk within an acceptable level.

The Bank controls its exchange rate risk within an acceptable level by paying close attention to forex market changes, proactively responding to market fluctuations, implementing strict control of the forex risk exposures of its relevant businesses, and an intensive procedure for risk monitoring, early warning and reporting.

Operational Risk Management

Operational risk refers to the risk of losses resulting from deficient internal procedures, employees and IT systems or external incidents. It includes legal risk but excludes strategic risk and reputational risk. The Bank has taken the following steps to strengthen its operational risk management: (i) re-examining the key risk index system of operational risk; (ii) establishing a hierarchical index monitoring system; (iii) improving its capability of concurrent monitoring of operational risk; (iv) constructing a risk management system and standardised process for its asset management business; (v) screening areas more prone to operational risk; (vi) re-inspecting business continuity management system; and (vii) incorporating its strategies and preferences for IT risk management into a comprehensive risk identification and assessment framework.

Anti-Money Laundering

In line with the Anti-Money Laundering Law of the PRC and relevant rules and regulations on anti-money laundering, the Bank has fulfilled its anti-money laundering obligations through management efforts against money laundering.

The Bank has made continuous efforts to improve its anti-money laundering risk management IT system and has upgraded the capacity of system tools to support business development. Specifically, the Bank formulated and issued five anti-money laundering measures regarding anti-money laundering confidentiality, co-ordinated investigation, inspection, performance evaluation and monitoring by name list. The Bank further improved the internal control system for anti-money laundering purposes. According to the new PBOC regulatory requirements, the Bank formulated its anti-money laundering management requirements and risk reminders to enhance the management of anti-money laundering efforts. In addition, the Bank completed the development of the mechanism for monitoring by name list, the compliance system renovation, and the research, development and implementation of the models and rules for routine monitoring of suspicious transactions. Pursuant to the PBOC's regulatory requirements on the assessment of customer money laundering risk, the Bank completed both the third risk assessment of existing high-risk customers and the due diligence work on all high-risk customers.

Capital Management

The Bank's capital management covers the management of regulatory capital, economic capital and book capital in general and capital adequacy ratio management, capital planning, capital allocation, capital evaluation and financing management, etc.

Capital adequacy ratio management is a core area of the Bank's capital management. The Bank calculates, manages and discloses its capital adequacy ratios according to the Provisional Measures for Capital Management of Commercial Banks promulgated by the CBIRC in June 2012. The Bank has continued to reinforce capital constraint and capital allocation mechanisms to continue its implementation of its capital-light development strategy. The Bank promoted the application of the internal rating approach in capital evaluation by guiding the business units to arrange capital structure under the capital constraint, reduce capital dependency on business development, and gradually transform into a model of a value-oriented bank that features capital saving and output efficiency.

Management of Other Risks

Other risks to which the Bank is exposed are reputational risk and strategic risk. Reputational risk is the created by operational, managing and other acts of the Bank or external events that would lead to negative publicity among stakeholders such as clients, staff, shareholders, investors, the media and regulators. The Bank has established a comprehensive reputational risk management structure, having the board of directors ultimately accountable, senior management responsible for daily decision-making, and each department provided with a clear role. The general office department at the Bank's head office is the leader in the Group's centralised reputational risk management. Strategic risk refers to those risks caused by changes in the business environment or inappropriate business strategy. The Bank has established a strategic risk management structure that is supervised by the board of directors, implemented by senior management and assisted by each department. The head office departments, branches and holding subsidiaries participate in monitoring strategic risks, while the general office department at the Bank's head office is the leader in analysing and summarising the strategic risks of the Group, then reports to senior management.

Internal Audit

The Bank follows the work objective of "promoting audit transformation and enhancing auditing value" pursuant to the overall arrangements set out in the "2018-2020 Development Plan of CITIC Bank" and conducts internal audits with the guidance of the "Audit Department's Implementation Programme for the New Three-year Plan (2018-2020)".

The Bank has continuously reformed its internal audit system by expanding the depth and breadth of internal audit work and upgraded internal audit independence and effectiveness. Recently, the Bank revised the "Internal Audit Charter of China CITIC Bank Corporation Limited", strengthened the board of supervisors' guidance on audit and its supervisory duties, enhanced the requirements on "strengthening audit with technology" and specified the rules for auditing of state policy implementation. In the first half of 2020, the Bank allocated more resources for offsite audits in response to the COVID-19 pandemic. Towards the five objectives of "increasing the proportion of regulator-identified problems uncovered earlier", "enhancing the ability to forestall major risks", "strengthening the audit supervision of key minorities", "stepping up the detection of frauds" and "strengthening follow-up on rectification", the Bank intensified the supervision over key institutions, key risk fields, key links of business management and staff in key positions, taking into account the new situation and new changes.

The Bank has reinforced audit supervision of key units, key risk areas, key operation and management components, and personnel at key positions. The Bank has organised a special audit of multiple areas including truthfulness of performance, loan business, financial management, abnormal large-amount transactions made by employees, consumer rights protection and IT, and has carried out a full audit of some branches and subsidiaries in combination with economic responsibility audit. The Bank made full use of off-site audit approaches to detect audit trails and tighten routine monitoring, fully realising the independent supervisory roles of internal audit.

INTERNAL CONTROL

Internal Control System

The Bank has set up a governance and organisational structure for internal control that consists of the board of directors, board of supervisors, senior management, internal control functions at the head office and branches, internal audit departments and management functions of other business lines. This structure is characterised by a reasonable division of duties, clear responsibilities and well-defined reporting lines. In accordance with the duties and responsibilities set out in the Basic Regulations on Internal Control, the Bank strives to establish an internal control and management system so as to strictly implement relevant internal control and management requirements, perform duties as mandated and make coordinated efforts.

The Bank follows the overarching principle of pursuing progress while ensuring stability and upholds the business philosophy that "compliance creates profits". It keeps strengthening the internal control and compliance management mechanism, endeavouring to fulfil the management objective of "Safe CITIC Bank" by enhancing the capability of compliance risk management, cementing the foundation for compliance governance and boosting the efficiency of compliance governance.

Improvements were made to the internal control mechanism. The Bank formulated its "Guidelines on Corporate Banking Marketing and Loan Disbursement" and "Guidelines for Stratified Management of Distributors in Online Auto Finance Business" to provide explicit guidance and regulations. The Bank amended and issued the "Measures for Post-credit-approval Management in Corporate Loan Business", "Management Measures for Risk Early Warning in Corporate Loan Business" and "Measures for Post-credit-approval Management of Financial Institution Customers" to put loan risk and post-lending risk under strict control. The Bank issued its "Measures for Management of Domestic Branches", "Measures for Assessment of Retail Productivity of Physical Outlets", "Administrative Measures for Asset Management Business", "Administrative Measures for Access Approval of Shortlisting Investments in Unsecured Renminbi Denominated Bonds", "Measures for Management of Proprietary Futures Trading in Precious Metals" and "Measures for Management of Export Credit Business" to further consolidate the foundation for business management. The Bank also issued the "Measures for Risk Management of Financial Statement Consolidation", "Administrative Measures for Comprehensive Assessment of Operational risk", "Administrative Measures for Special Tests of Internal Control" and "Administrative Measures against Credit Card Cash Frauds Committed by Employees" to intensify an overall risk control and internal control.

More intensive efforts were made to prevent and control the occurrence of irregular incidents. The Bank attaches great importance to risk screening of irregular incidents. With the formulation of the annual "Program on Prevention and Control of Irregular Incidents", the Bank assessed the relevant prevention efforts and deployed annual tasks for such prevention. The monthly risk screening of abnormal staff conduct serves as both a deterrent and a warning to increase the awareness of employees. Special risk screenings are organised for bill business and credit card frauds, eliminating potential risks in a timely manner.

As at the date of the Offering Circular, the Bank's internal control management structure has three levels: decision-making level, implementation level and supervision and evaluation level.

Decision-making level

The Bank's board of directors is responsible for determining strategic target and policies of internal control, approving internal control procedures for various business activities and evaluating the overall integrity and effectiveness of the Bank's internal control system.

Implementation level

The Bank's senior management at the head office level is responsible for implementing internal control strategies and policies adopted by the board of directors, establishing internal control reporting structures to promulgate procedures to identify, assess, measure and manage various risks, and taking necessary steps to rectify internal control and management weaknesses through the president meeting.

The special committees under the president, including the Risk and Internal Control Committee, the development and assets and liabilities committee, the IT committee and the audit committee are responsible for risk management and internal controls within their respective scope of duty.

The various business departments at head-office level are responsible for implementing internal control policies and procedures in their respective scope of business, conducting internal control examinations of the corresponding business departments at branch level and rectifying internal control and management weaknesses, and reporting the results to the senior management.

The Bank's management at branch level is responsible for establishing and enhancing internal control procedures at the respective branch, and formulating detailed implementation procedures of the internal control and management system.

Supervision and evaluation level

The Bank's board of supervisors are responsible for inspecting internal control and urging any rectification, while the Audit and Related Party Transactions Control Committee is responsible for ensuring the integrity and effectiveness of the Bank's internal control systems. The internal audit department is responsible for carrying out internal audits over various business activities, including proposing mid-to-long term audit plans, annual audit plans and rules and regulations. It carries out internal audit and valuation on the adequacy and effectiveness of the Bank's internal control system and its operational management, also the performance of the managerial personnel on their duties. It is also responsible for establishing an audit work evaluation system for training purposes and reporting the results of internal audits to the senior management and the internal audit committee.

INFORMATION TECHNOLOGY

The Bank's IT systems provides critical support to many aspects of its business operations, including customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of an advanced IT system that complements its overall business strategies will greatly improve its efficiency customer service quickly as well as its risk and financial management. The Bank fully understands the importance of sophisticated IT infrastructure and systems to the effective management and successful development of its business, and has invested and will continue to invest heavily in its IT systems.

Based on its development strategy to further business growth through the use of science and technology, and also in response to its customers' needs for mobile, intelligent and convenient financial services, the Bank has made proactive efforts to improve its IT governance and basic IT management to move towards a "traditional + Internet" hybrid structure. The Bank is continuing to carry out key strategic projects in areas such as risk control, construction of business platforms, data application and infrastructure development. The Bank also has projects such as the "new generation asset management business system" and intelligent billing platform. In addition, the Bank completed the development of core business systems for its overseas branches, and successfully upgraded its core networks. The Bank embraced the development of financial technology by researching and applying new technologies such as cloud computing, block chain, machine learning and big data analysis.

COMPETITION

As at the date of this Offering Circular, the Bank competes principally with large-scale commercial banks, national joint stock commercial banks, key urban commercial banks and foreign-invested banks in the PRC. In addition, the Bank may face competition for funds from other forms of investment alternatives as the PRC capital markets continue to develop.

EMPLOYEES

As at 30 June 2020, the Bank had a total of approximately 56,881 employees.

LEGAL AND REGULATORY PROCEEDINGS

The Group has been involved in several litigation and arbitration cases in its ordinary and usual course of business. Most of these litigations and arbitrations were initiated by the Group to enforce loan recovery, and there were also litigations and arbitrations resulting from disputes with customers. As at 30 June 2020, there were 133 outstanding litigation and arbitration cases (regardless of the disputed amounts) involved in the Group's ordinary and usual course of business where the Group acted as defendant/respondent, relating to an aggregate disputed amount of RMB5.0 billion.

The Bank is of the view that the litigations and arbitrations will not have significant adverse impacts on either its financial conditions or results of operations.

For the six months ended 30 June 2020, no issues exposed the Bank to extensive negative media coverage.

As at the date of the Offering Circular, the Bank is not involved in any litigation, arbitration or administrative proceedings, whether pending or threatened, which are or might have a material adverse effect on the financial conditions or results of operations of the Bank or which are otherwise material in the context of the issuance of the Notes.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

The following table sets out certain information relating to the Bank's directors as at the date of this Offering Circular.

Name	Position	Term of appointment
Executive Directors		
Li Qingping	Chairperson, executive director	March 2014 – May 2021
Fang Heying	Executive director, president and chief financial officer	September 2018 – May 2021
Guo Danghuai.	Executive director and vice president	September 2019 – May 2021
Non-executive Directors[2]		
Cao Guoqiang	Non-executive director	September 2018 – May 2021
Huang Fang	Non-executive director	November 2016 – May 2021
Wan Liming	Non-executive director	June 2016 – May 2021
Independent Non-executive Directors		
He Cao.	Independent non-executive director	June 2016 – May 2021
Chen Lihua.	Independent non-executive director	June 2016 – May 2021
Qian Jun.	Independent non-executive director	December 2016 – May 2021
Yan Lap Kei Isaac.	Independent non-executive director	September 2018 – May 2021

Executive Directors

Ms. Li Qingping (李慶萍) is the chairperson and an executive director of the Bank. Ms. Li is concurrently executive director and deputy general manager of CITIC Group, executive director, deputy general manager and executive committee member of CITIC Limited, executive director, deputy general manager of CITIC Corporation Limited, chairperson of CIFH, vice chairperson of CITIC Prudential Life Insurance Co., Ltd., and chairperson of CITIC aiBank. Ms. Li has been chairperson and executive director of the Bank since 20 July 2016. Prior to that, Ms. Li was executive director and president of the Bank from July 2014 to July 2016; secretary of Party Committee of the Bank since May 2014; non-executive director of the Bank between March and May 2014; Party Committee member of CITIC Group and concurrently deputy general manager of CITIC Corporation Limited since September 2013; and deputy general manager and executive committee member of CITIC Limited since September 2014. She has been an executive director of CITIC Group, CITIC Corporation Limited and CITIC Limited since December 2015; deputy general manager of CITIC Group since December 2017; chairperson of CITIC aiBank since August 2017; chairperson of CIFH since September 2015; and vice chairperson of Pa Hsin-cheng Life Insurance Co., Ltd. (now CITIC Prudential Life Insurance Co., Ltd.) since March 2014. Earlier, she was head of retail banking and concurrently general manager of personal finance department of Agricultural Bank of China ("**ABC**") from May 2009 to September 2013; head of retail banking and concurrently general manager of personal banking and personal credit departments of ABC from January 2009 to May 2009; and secretary of Party Committee and president of ABC Guangxi Branch from January 2007 to December 2008. Prior to these, she was a cadre, deputy division chief, division chief, deputy general manager and general manager of the international business department at the ABC head office from August 1984 to January 2007. Ms. Li is a senior economist with over 30 years' professional experience in the Chinese banking industry. She graduated from Nankai University majoring in international finance with a master's degree in economics.

2 Mr. Wang Yankang was appointed a non-executive director of the Bank at the second extraordinary general meeting of 2020 of the Bank held on 30 October 2020. The appointment of Mr. Wang will become effective upon approval by the CBIRC.

Mr. Fang Heying (**方合英**) is the executive director, president and chief financial officer of the Bank. Mr. Fang joined the board of directors of the Bank in September 2018. He has been president of the Bank since March 2019, deputy secretary of the Party Committee of the Bank since February 2019, chief financial officer since January 2017 and Party Committee member of the Bank since August 2014. Mr. Fang was vice president of the Bank between November 2014 and March 2019. At present, Mr. Fang is also concurrently a director of CITIC Bank International Limited and CITIC International Financial Holdings Corporation Limited. Prior to that, Mr. Fang was a director of CNCB (Hong Kong) Investment Co., Ltd. between January 2014 and May 2019, and headed the Bank's financial markets business from May 2013 to January 2015. He was concurrently secretary of the Party Committee and president of the Bank's Hangzhou Branch between May and September 2014 and served as secretary of the Party Committee and president of the Bank's Suzhou Branch from March 2007 to May 2013. From September 2003 to March 2007, he successively held various positions at the Bank's Hangzhou Branch, including Party Committee member, assistant president, and vice president. From December 1996 to September 2003, he worked at the Bank's Hangzhou Branch, successively holding the positions of section chief and deputy general manager of the credit department, general manager and secretary of the Party Committee of Fuyang sub-branch, deputy general manager of the international settlement department, deputy general manager of the retail business department, and general manager of the business department. From July to December 1996, he was deputy director of Hangzhou Chengdong Office of Shanghai Pudong Development Bank. From December 1992 to July 1996, he worked at the credit department of the experimental urban credit cooperative of Zhejiang Banking School, successively holding the positions of credit clerk, manager, and assistant general manager. From July 1991 to December 1992, he was a teacher at Zhejiang Banking School. Mr. Fang graduated from Peking University with a master's degree in business administration. He is a senior economist, and has over 20 years of experience in the Chinese banking industry.

Mr. Guo Danghuai (**郭黨懷**) is an executive director and vice president of the Bank. Mr. Guo joined the board of directors of the Bank in September 2019. He has served as Party Committee member of the Bank since August 2014 and vice president of the Bank since November 2014. He is concurrently a director of CITIC International Financial Holdings Corporation Limited, CNCB (Hong Kong) Investment Co., Ltd., CNCB (Hong Kong) Capital Limited and CITIC aiBank. Previously, Mr. Guo was a director of China UnionPay Co., Ltd. between July 2015 and December 2019; chief audit officer of the Bank from May 2013 to August 2014; secretary of Party Committee and general manager of the business department at the Bank's head office from March 2010 to May 2013; secretary of Party Committee and president of the Bank's Tianjin Branch from July 2006 to March 2010; general manager of the international business department of the Bank from January 2005 to July 2006; and assistant president of the Bank between August 2001 and January 2005. From November 2000 to August 2001, he was designated by CITIC Group to lead the project on CITIC Guo'an Group's acquisition of Shantou Commercial Bank and to be the chairman. He served as secretary of Party Committee and president of the Bank's Shenyang Branch from September 1999 to November 2000. Between August 1986 and September 1999, he worked for the Bank, successively holding the positions of staff member, deputy section chief and section chief, and also served as section chief, deputy general manager and general manager of the business department at Capital Mansion, assistant president and vice president of the Bank's Beijing Branch, and deputy general manager of the Business Department at the Bank's head office. Mr. Guo is a senior economist and a graduate of Peking University with a master's degree in business administration. He has over 30 years of experience in the Chinese banking industry.

Non-executive Directors

Mr. Cao Guoqiang (**曹國強**) is a non-executive director of the Bank. Mr. Cao joined the board of directors of the Bank in September 2018. He has served as chief financial officer of CITIC Limited since April 2018. Mr. Cao was general manager of the finance department of CITIC Group between March 2018 and August 2019, and chairman of the board of supervisors of China CITIC Bank Corporation Limited between December 2015 and March 2018, and held a temporary position at CITIC Group as the general manager of the finance department between April 2015 and March 2018. In addition, Mr. Cao has been a director of China CITIC Bank Corporation Limited since September 2018, a director of CITIC Metal Co., Ltd. since April 2018, a director of CITIC Modern Agriculture Investment Co., Ltd. since December 2017, a director of CITIC Myanmar (Hong Kong) Holdings Limited since October 2016, and a director of CITIC Heye Investment Co., Ltd. since December 2013. Mr. Cao was a director of CITIC Holdings Limited between December 2015 and April 2018, a director of CIFH and CNCBI between October 2009 and March 2016, and a director of China Investment and Finance Limited (now renamed "**CNCBI Investment**") between December 2005 and January 2014. He was general manager of the budget and finance department of the head office, assistant president and vice president of the Bank from April 2005 to October 2015. Previously, between December 1992 and April 2005, Mr. Cao served as assistant general manager of the planning and treasury department at the head office of China Merchants Bank ("**CMB**"), a director of Shenzhen Speed International Investment Co., Ltd., a director and deputy general manager (presiding) of CMB Pawn Co., Ltd., general manager of the planning and treasury unit at CMB's Shenzhen administrative department, and deputy general manager and general manager of the planning and treasury department at the head office of CMB. From July 1988 to June 1992, Mr. Cao worked in the planning and treasury division of the PBOC Shaanxi branch as a senior staff member and deputy section chief. Mr. Cao graduated from Hunan College of Finance and Economics with a bachelor's degree in monetary banking and obtained his master's degree in monetary banking from Shaanxi College of Finance and Economics. He is a senior economist with over 30 years' experience in the Chinese banking industry.

Ms. Huang Fang (黃芳) is a non-executive director of the Bank. Ms. Huang joined the board of directors of the Bank in November 2016. She has served as a director of Xinhu Zhongbao Co., Ltd. since November 2015, a director of Zhejiang Xinhu Group Co., Ltd. since August 2013, and vice president and chief financial officer of Zhejiang Xinhu Group Co., Ltd. since July 2011. Previously, Ms. Huang was vice president and chief financial officer of Xinhu Holdings Limited from October 2010 to July 2011. From August 1992 to September 2010, she worked for ABC Zhejiang Provincial Branch, holding various positions, including deputy general manager of the international business department of the branch, deputy general manager (presiding) of Hangzhou Baojiao subbranch, as well as deputy general manager of the corporate banking unit as well as deputy general manager (presiding) and general manager of the personal finance unit at the business department of the branch. Ms. Huang has a wealth of practical financial experience, outstanding leadership and capabilities in organising and coordinating. She graduated from Zhejiang University with a bachelor of law degree. She holds an intermediate economist title.

Mr. Wan Liming (萬里明) is a non-executive director of the Bank. Mr. Wan joined the board of directors of the Bank in June 2016. He has served as a deputy general manager (presiding) of China Shuangwei Investment Co., Ltd. since December 2018. Earlier, he was director general of the financial management and supervision division (audit division) of the State Tobacco Monopoly Administration between November 2011 and November 2018. He was a deputy director general of the financial management and supervision division (audit division) of the State Tobacco Monopoly Administration between December 2009 and November 2011, and chief accountant of Yunnan Tobacco Monopoly Bureau (company) from February 2007 to December 2009. Between August 1996 and February 2007, he served multiple positions at Yunnan Tobacco Monopoly Administration (company), including deputy chief and chief of the finance division, chief of the financial management and audit division, deputy chief accountant and chief of the financial management division. From May 1996 to August 1996, he was a cadre at Yunnan Tobacco Travel Company. From July 1988 to May 1996, he worked as a lecturer and deputy teaching and research director at Yunnan Finance and Trade College. Mr. Wan has a wealth of financial management experience. He graduated from the Department of Industrial Economics at Renmin University of China with a bachelor's degree in economic management of capital construction.

Independent Non-executive Directors

Mr. He Cao (何操) is an independent non-executive director of the Bank. Mr. He joined the board of directors of the Bank in June 2016. Previously, he was chairman of China Jinmao Group (formerly Franshion Properties (China) Co., Ltd.), and chairman of Jinmao Investment and Jinmao (China) Investment Holding Co., Ltd. Mr. He joined Sinochem Corporation in 1979 and held various senior positions in financial management, business management and investment enterprises within the group. In 2002, he was appointed assistant to the president of Sinochem Corporation and regarded as a vice president of Sinochem from 2013 onward. Mr. He was president, vice chairman and chairman of China Jinmao (Group) Co., Ltd. since 2002, during which time he successfully ran the Shanghai Jinmao Tower, and presided over the investment, acquisition and construction of multiple luxury five-star hotels and properties in tier-one cities and high-end tourist resorts, developing Jinmao Group into China's well-known high-end commercial real estate developer and operator. Mr. He became chairman, executive director and CEO of Franshion Properties (China) Co., Ltd. in January 2009. Under his chairmanship and promotion, Franshion Properties (China) Co., Ltd. and Jinmao Group completed a strategic reorganisation between 2009 and 2010, and the spin-off of Jinmao Tower Property and Franshion Properties' eight high-end hotels in 2014, which was successfully listed on The Stock Exchange of Hong Kong Limited as a trust structure of Jinmao Investment and Jinmao Holding. Mr. He once served as co-chair of the "China Hotel Owner Alliance" under the China Hotel Industry Association, and vice president of the All-China Real Estate Chamber of Commerce. In addition, Mr. He was engaged as the executive director of Shanghai Federation of Enterprises in Shanghai, vice chairman of Housing Policy and Market Regulation Research

Committee of China Urban Science Research Council, and member of the Professional Committee on Green Building and Energy Conservation under the China Urban Science Research Society. He was a delegate to the 12th and 13th session of the Shanghai Municipal People's Congress and was named Shanghai's model worker in 2007 and one of the economic figures in Shanghai Pudong's 20-year development and opening-up in 2012. Mr. He graduated from Jilin College for Finance and Economics with a junior diploma in 1979, from Renmin University of China with a degree in economics in 1986, and from the Graduate School of Political Economics in Jilin University in 1987. Mr. He obtained his master of business administration from the China Europe International Business School in 2004. He has a senior economist title.

Dr. Chen Lihua (陳麗華) is an independent non-executive director of the Bank. Ms. Chen joined the board of directors of the Bank in June 2016. She is a professor and Ph.D. tutor of the management science and information system department of Guanghua School of Management at Peking University. At the same time, Ms. Chen is executive director of the Center for Research of Circulation Economy and Management, director of Liantai Supply Chain Research and Development Center, and deputy dean of the China National Institute for Research of Development Strategy on Hi-Tech Industry Development Zone of Peking University. In addition, she is vice president of the China Society of Logistics, director of the Supply Chain and Logistics Committee of the China Management Science Society, deputy director of the Industry Committee of the China Information Economics Society, an expert with special contribution to the logistics industry over the 40 years of China's reform and opening-up, a core expert in the National Strategy Research Group for Supply Chain Innovation and Application, and an expert on national high-tech zones engaged by the Ministry of Science and Technology. Ms. Chen has been an independent director of CWT International limited, a company listed in Hong Kong since August 2019. From 1999 to 2001, Ms. Chen was general manager of Beijing Jun Shi Century Information Technology Co., Ltd., a company mainly engaged in the development, production and sales of banking devices. Ms. Chen served as an independent director of Tiger, a Singaporean listed company from 2005 to 2006. She received a bachelor of science degree and a master of science degree from Jilin University of Technology in 1983 and 1988 respectively. She got her doctoral degree in management science from the City University of Hong Kong in 1998 and did her post-doctoral studies at the Institute of Mathematics and Systems Science of the Chinese Academy of Sciences between 1999 and 2000. Ms. Chen mainly researches and teaches the following areas: management science, supply chain finance, logistics finance, supply chain and logistics management, logistics park management, circulation economy and management, service operation management, hi-tech park and industrial management, technological innovation and management, venture capital investment and entrepreneurial management. In her fields of research, Ms. Chen has carried out extensive cooperation and exchanges with relevant international organisations, including Stanford University, George Mason University, Roma University and universities in Hong Kong. In her capacity as leader or research backbone, Ms. Chen has participated in numerous international cooperation projects and key research and development projects sponsored by the National Natural Science Foundation, ministries and provincial governments in China. She also sits on the review and assessment panels of multiple domestic and foreign academic journals. She has published numerous papers such as Supply Chain Coordination Based on the Trade Credit and Option Contract under Capital Constraint on prestigious international publications such as the European Journal of Operational Research and Proceeding of Workshop on Internet and Network Economics. Ms. Chen took the lead to complete many major research reports including Research of the Supply Chain Financial Model for the Traditional Chinese Medicine Industry, the Research of the Supply Chain Financial Model for Agricultural Industry, etc.

Mr. Qian Jun (錢軍) is an independent non-executive director of the Bank. Mr. Qian joined the board of directors of the Bank in December 2016. Mr. Qian has been professor of finance and executive dean of Fanhai International School of Finance at Fudan University since July 2017. He was deputy director of the China Academy of Financial Research and co-director of the executive master of business administration, master of business administration and executive education programs at Shanghai Advanced Institute of Finance ("**SAIF**") of Shanghai Jiao Tong University between July 2014 and June 2017. He was an associate editor of the Review of Finance from December 2013 to December 2016. He was professor of finance and a Ph.D. tutor at SAIF and co-director of the executive master of business administration program of Shanghai Jiao Tong University from July 2013 to June 2017. Mr. Qian served as a special-term professor of finance at Shanghai Jiaotong University from May 2009 to June 2013. He taught finance at the Carroll School of Management of Boston College between July 2000 and June 2013, being an assistant professor from July 2000 to February 2006 and an associate professor of finance with tenure between March 2006 and June 2013. He worked as a Haub family researcher from September 2011 to June 2013. Since April 2011, Mr. Qian has been an associate editor of the Frontiers of Economics in China. He was a special-term professor of finance at the School of Economics and Management of Tsinghua University between July 2007 and June 2009, a visiting associate professor at MIT's Sloan School of Management between July 2007 and June 2008, and a research fellow at the Wharton School of the University of Pennsylvania since September 2002. Mr. Qian did his undergraduate program at the department of international economics of Fudan University between 1988 and 1991 and obtained his B.S. degree in economics from the University of Iowa in May 1993 and his Ph.D. from the University of Pennsylvania in May 2000. Mr. Qian's research interests span many topics of theoretical and empirical corporate finance and financial institutions, including commercial and investment banking, mutual and hedge funds, credit rating agencies, mergers and acquisitions, legal systems related to finance, comparison of financial systems in emerging markets, development of financial systems during China's economic transformation, and financial risk prevention and control. His research papers have been published in leading academic journals including the American Economic Review, Journal of Finance, Journal of Financial Economics, Journal of Financial and Quantitative Analysis and Journal of International Economics. He also contributed chapters of several books on financial system development, including China's Great Economic Transformation, Emerging Giants: China and India in the World Economy, China's Emerging Financial Markets: Challenges and Opportunities, and Global Perspectives of Rule of Law.

Mr. Yan Lap Kei Isaac (殷立基) is an independent non-executive director of the Bank. Mr. Yan joined the board of directors of the Bank in September 2018. Previously, he joined Arthur Young & Co. (UK) in 1984, joined KPMG Certified Public Accountants (UK) in 1987, and served as assistant manager at KPMG Certified Public Accountants (Hong Kong) since 1988, as manager since 1989, as senior manager since 1993 and was promoted partner in 1998. He served as a partner at KPMG Huazhen Certified Public Accountants in Beijing (special general partnership) between 2000 and 2017, and established the quality control and risk management department of KPMG (China). Mr. Yan graduated from Liverpool University with an (accounting) bachelor of arts degree, and has the chartered accountant qualification in England and Wales as well as the Hong Kong Institute of Certified Public Accountants fellowship. Mr. Yan has abundant experience in aspects such as accounting, audit and risk management, and used to participate many times in the public listing and annual audit of state-owned large and medium-sized enterprises in industries including finance, telecommunications, electricity and manufacturing. He enjoys a wealth of practical experience in merger, acquisition, restructuring and public listing projects in the Chinese mainland and Hong Kong capital markets. Mr. Yan used to serve as a consulting expert of the former China Banking Regulatory Commission, an accounting standards consulting expert of the PRC Ministry of Finance, a consultant to the accounting department of the CSRC (full-time for a year), a member of the Delisting Committee of the Shenzhen Stock Exchange, and a member of the China Technical Professionals Group, Professional Standards Supervisory Committee and Risk Management Committee of the Hong Kong Institute of Certified Public Accountants. He also participated in the review of the first draft of the audit and accounting standards issued by the PRC Ministry of Finance and the English translation work of the audit standards. He was a visiting professor at Beijing National Accounting Institute and Shanghai National Accounting Institute.

Mr. Wang Yankang (王彥康) was appointed a non-executive director of the Bank at the second extraordinary general meeting of 2020 of the Bank held on 30 October 2020. The appointment of Mr. Wang will become effective upon approval by the CBIRC. Mr. Wang is the chief of state-owned assets management division of the financial management and supervision department (audit department) of the State Tobacco Monopoly Administration. From April 2013 to August 2016, he served as a consultant and the deputy chief of the state-owned assets management division of the financial management and supervision department (audit department) of the State Tobacco Monopoly Administration; from February 2009 to April 2013, he served as the deputy chief of the state-owned assets management division of the financial management and supervision department (audit department) of the State Tobacco Monopoly Administration; from September 2006 to February 2009, he served as the deputy chief of the first audit Division of the financial management and supervision department (audit department) of the State Tobacco Monopoly Administration; from July 1998 to September 2006, he served as a cadre, deputy chief staff member, and chief staff member of the audit division of the financial management and supervision department (audit department) of the State Tobacco Monopoly Administration (from October 2004 to September 2005, he was appointed as the deputy county head of Yunxi County, Hubei Province); from June 1997 to July 1998, he served as a cadre assigned by the National Audit Office to the audit bureau of the State Tobacco Monopoly Administration; from August 1994 to June 1997, he was a cadre of the finance department of Tsinghua University. In July 1994, he graduated from the accounting department of Renmin University of China with a bachelor's degree in accounting; from September 2000 to November 2003, he studied in Beijing Technology and Business University and obtained a master's degree in accounting.

SUPERVISORS[3]

The following table sets out certain information relating to the Bank's supervisors as at the date of this Offering Circular.

Name	Position	Term of appointment
Liu Cheng	Chairman of the board of supervisors, employee representative supervisor	April 2018 – May 2021
Jia Xiangsen	External supervisor	May 2015 – May 2021
Zheng Wei	External supervisor	May 2015 – May 2021
Wei Guobin	External supervisor	May 2020 – May 2021
Li Gang	Employee representative supervisor	August 2019 – May 2021
Chen Panwu	Employee representative supervisor	September 2017 – May 2021
Zeng Yufang	Employee representative supervisor	September 2017 – May 2021

Mr. Liu Cheng (劉成) is the chairman of the board of supervisors of the Bank. Mr. Liu has served as chairman of the board of supervisors, employee representative supervisor and Party Committee member of the Bank since April 2018. Mr. Liu has been a supervisor of Asian Financial Cooperation Association (AFCA) since October 2019. Mr. Liu worked at the General Office of the State Council from April 2008 to April 2018, successively serving as a secretary at the division chief level, a secretary at the deputy director general level and a secretary at the director general level. He was an official at the division chief level, a first secretary, a researcher and deputy division chief of Division One of the Second Secretary Bureau at the General Office of the State Council from December 2004 to April 2008; assistant researcher and researcher of the finance division under the Finance Department of the National Development and Reform Commission from July 2003 to December 2004; and principal staff member at the finance department, and principal staff member and assistant researcher at the economic policy coordination department of the State Planning Commission (now National Development and Reform Commission) from March 1995 to July 2003. Mr. Liu graduated from the finance department of the Central College of Finance and Economics (now Central University of Finance and Economics) in July 1989 with a bachelor's degree in economics. He stayed on to teach at the college until March 1995, during which period he obtained a master's degree in economics. Mr. Liu obtained his doctor of economics degree in currency and banking from the School of Finance at Renmin University of China in July 2001.

Mr. Jia Xiangsen (賈祥森) is an external supervisor of the Bank. Mr. Jia has been an external supervisor of Bank of China Limited since May 2019, and an independent director of China Life Insurance Company Limited since March 2016. He was concurrently chief audit executive and director general of the audit bureau at the head office of ABC between March 2010 and March 2014 and headed the ABC head office audit bureau between April 2008 and March 2010. From December 1983 to April 2008, Mr. Jia was deputy general manager of the Fengtai District sub-branch of PBOC Beijing Branch, and held various positions at ABC Beijing Branch, including, among others, deputy head of Fengtai District sub-branch, deputy division chief (presiding) at the branch, head of Dongcheng District sub-branch, and eventually vice president and deputy secretary of Party Committee of the branch. He served as general manager of the corporate banking department of ABC head office, president and secretary of Party Committee of ABC Guangdong Provincial Branch. Prior to that, he worked at Chaoyang and Fengtai District offices of PBOC Beijing Branch. Mr. Jia graduated from the graduate school of the Chinese Academy of Social Sciences majoring in monetary banking.

Mr. Zheng Wei (鄭偉) is an external supervisor of the Bank. Mr. Zheng is a professor and dean of risk management and insurance science at the School of Economics of Peking University. He has been working at the School of Economics of Peking University since July 1988, holding various positions including assistant lecturer, lecturer, associate professor, professor and Ph.D. tutor, and has been assistant dean, deputy dean and dean of risk management and insurance science since March 1999. He has been an independent director of Xinhua Life Insurance Co., Ltd. since March 2016, an independent director of Donghai Shipping Insurance Co., Ltd. since June 2016, an independent director of PICC Reinsurance Co.,

3 Ms. Li Rong was proposed to be appointed as the Bank's shareholder representative supervisor. The proposal of such appointment will be submitted for consideration (and, if thought fit, approval) at the first extraordinary general meeting of 2021 of the Bank scheduled to be held on 14 January 2021.

Ltd. since May 2017, and a director of Shanghai Nanyan Information Technology Co., Ltd. since November 2018. Between August 1999 and January 2000, Mr. Zheng was a visiting scholar to the Business School of the University of Wisconsin-Madison. Mr. Zheng graduated from the School of Economics of Peking University with a doctoral degree in finance.

Mr. Wei Guobin (**魏國斌**) is an external supervisor of the Bank**.** Mr. Wei served as a board director of BOC Hong Kong Investment Co., Ltd. and the chairman of the board of supervisors of Zhongyi Shanyuan (Beijing) Technology Co., Ltd. from February 2019 to February 2020; and the president and the secretary of the Party Committee of the Bank of China Hunan Branch from June 2016 to February 2019; the general manager of the Personal Finance Headquarters of the Head Office of Bank of China from January 2012 to June 2016; the president and secretary of the Party Committee of the Bank of China Shanxi Branch from September 2007 to January 2012; the assistant president, deputy president, and Party Committee member of the Bank of China Hebei Branch from April 1998 to September 2007, during which period of time he hosted a temporary post as deputy general manager of the human resources department of the head office of Bank of China from May 2005 to September 2007; the deputy director of foreign exchange credit division, director of foreign exchange credit division, director of credit management division of Bank of China Hebei Branch from July 1992 to April 1998; a member of the credit division, deputy chief of foreign exchange credit section of credit division, deputy chief staff of credit division and deputy chief staff of credit division of Bank of China Shijiazhuang Branch from August 1982 to April 1998. Mr. Wei is a senior economist and graduated from Hebei Banking School with a degree in finance.

Mr. Li Gang (**李剛**) is an employee representative supervisor of the Bank. Mr. Li has served as general manager of the audit department of the Bank since December 2019. He was the head of the Bank's audit department between September 2018 and December 2019. Mr. Li served as the secretary of Party Committee and president of the Bank's Hefei Branch from January 2015 to September 2018, during which time, from March 2015 to September 2018, he served as the president of the Bank's Hefei Branch. From March 2012 to January 2015, he served as the general manager of the Bank's audit department. From February 2012 to March 2012, he served as the general manager of the audit department and concurrently the general manager of the compliance department of the Bank. From September 2009 to February 2012, he served as the general manager and before that he presided over the Bank's compliance and audit department from July 2009 to September 2009. From June 2005 to July 2009, he served successively as the general manager of the Bank's treasury management division within the budget and finance department, assistant general manager of the budget and finance department and concurrently general manager of the assets and liabilities management department as well as deputy general manager of the budget and finance department. From May 2001 to June 2005, he served as the general manager of the budget and finance division within the business department of the Bank's head office (now the Beijing Branch). Prior to that, Mr. Li served in CITIC Daxie Development Limited. Mr. Li graduated from Peking University with a degree of executive master of business administration.

Mr. Chen Panwu (**陳潘武**) is an employee representative supervisor of the Bank. He serves as general manager of the Bank's the culture and labour union department since September 2018, and executive vice chairman of the labour union of the Bank since December 2014. Prior to that, he was general manager of the Culture, Labour Union Office and security department of the Bank between April 2015 and September 2018; deputy general manager and general manager of the human resources department of the Bank from June 2005 to November 2014, during which period he concurrently served as head of the organisation department of the Party Committee of the Bank from October 2012 to November 2014. From May 1994 to June 2005, he worked at the Bank's Hangzhou Branch, successively serving as deputy head of the planning and credit unit, head of Fengqi office, general manager of the personnel department, and assistant to the general manager as well as general manager of the human resources unit. Mr. Chan graduated from Suzhou University with a doctoral degree in finance.

Ms. Zeng Yufang (**曾玉芳**) is an employee representative supervisor of the Bank. She has been vice president of the Bank's Guangzhou Branch since August 2019. Earlier, she was assistant president and vice president of the Bank's Shenzhen Branch from July 2008 to August 2019, and deputy general manager and general manager of the accounting department of the branch from December 2003 to July 2008. Between August 2001 and November 2003, she was deputy general manager of Shenzhen Gaofei Industrial Co., Ltd. (now renamed "Shenzhen Honemark Information Technology Co., Ltd."). From December 1998 to July 2001, she was assistant chief of the finance and accounting division of State Development Bank Shenzhen Branch. From March 1996 to November 1998, she worked at Shenzhen Branch of China Investment Bank, successively serving as deputy chief of the accounting section and assistant general manager of the finance and accounting department of Futian sub-branch. Ms. Zeng graduated from East-West University of the USA with a master's degree in business administration.

Ms. Li Rong (**李蓉**) was proposed to be appointed as the Bank's shareholder representative supervisor. The proposal of such appointment will be submitted for consideration (and, if thought fit, approval) at the first extraordinary general meeting of 2021 of the Bank scheduled to be held on 14 January 2021. Ms. Li has served as the general manager of the compliance department of the Bank since January 2018. Ms. Li served as the general manager of the interbank business department of the Bank from May 2013 to January 2018. From March 2006 to May 2013, she worked at the Chongqing Branch of the Bank, serving successively as the general manager of retail banking department, assistant president and vice president of the Chongqing Branch. From October 1995 to March 2006, she worked at the Chongqing Branch of China Merchants Bank Co., Ltd. (招商銀行股份有限公司), serving successively as, among other positions, the deputy director of general office, general manager of personal banking department, general manager of business department, general manager of retail banking department. Ms. Li graduated from Chongqing University with a master degree of business administration.

SENIOR MANAGEMENT

The following table sets out certain information relating to the Bank's senior management as at the date of this Offering Circular.

Name	Position	Term of appointment
Fang Heying	Executive Director, President and Chief Financial Officer	Since November 2014
Guo Danghuai	Executive Director and Vice President	Since November 2014
Hu Gang	Vice President and Chief Risk Officer	Since May 2017
Xie Zhibin	Vice President	Since February 2019
Xiao Huan	Secretary of the Committee of Disciplinary Inspection	Since December 2019
Lu Wei[4]	Business Director	Since January 2017
Lu Jingen	Business Director	Since August 2018
Lü Tiangui[4]	Business Director	Since August 2018
Zhang Qing	Secretary to the Board of Directors and Company Secretary	Since July 2019
Liu Honghua	Business Director	Since August 2019

Mr. Fang Heying (**方合英**) is an executive director, the president and chief financial officer of the Bank. Please refer to the section "*Directors*" herein for his resume.

Mr. Guo Danghuai (**郭黨懷**) is an executive director and vice president of the Bank. Please refer to the section "*Directors*" herein for his resume.

Mr. Hu Gang (**胡罡**) is a vice president and chief risk officer of the Bank. Mr. Hu has concurrently been chief risk officer of the Bank since November 2019, and has served as Party Committee member of the Bank since November 2017, vice president of the Bank since May 2017. Mr. Hu used to be secretary of Party Committee of the Bank's Shanghai Branch between December 2014 and July 2018, and concurrently president of Shanghai Branch between May 2015 and July 2018. Prior to that, he was head of the wholesale business of the Bank from May 2014 to May 2017; chief risk officer of the Bank from May 2013 to May 2014; Party Committee member, vice president, secretary of Party Committee, vice president (presiding) and president of the Bank's Chongqing Branch from May 2005 to May 2013. He served successively as deputy head of the preparatory team for establishment of the Bank's Changsha Branch, Party Committee member and vice president of Changsha Branch from June 2000 to May 2005; and chairman of Changsha Xiangcai Urban Credit Cooperative in Hunan Province from October 1997 to June 2000. From August 1993 to October 1997, he worked for Hunan Zhongli Industrial Group Co., Ltd. and served successively as assistant general manager and general manager of Beihaixiang Properties Development Company and vice chairman of the company's affiliated Hongdu Enterprise Company. From March to August 1993, Mr. Hu was deputy section chief at the personnel department of Hunan Provincial Party Committee Office; and from June 1989 to March 1993, he worked for the Political Department of Hunan Provincial Procuratorate. Mr. Hu is a senior economist and a graduate of Hunan University with a doctoral degree in economics. He has over 10 years of experience in the Chinese banking industry.

4 On 25 November 2020, the board of directors of the Bank resolved to appoint each of Mr. Lu Wei and Mr. Lü Tiangui as a vice president of the Bank and such appointments will become effective upon approval by the CBIRC.

Mr. Xie Zhibin (**謝志斌**) is a vice president of the Bank. Mr. Xie has been vice president of the Bank since June 2019, a member of the Party Committee of the Bank since February 2019, and concurrently a director of China UnionPay Co., Ltd. since December 2019. Previously, Mr. Xie was Secretary of the Committee for Disciplinary Inspection and member of the Party Committee of China Everbright Group Co., Ltd. from July 2015 to January 2019. Between March 2012 to July 2015, he served as assistant general manager of China Export Credit Insurance Corporation, during which time, from January 2014 to July 2015, he temporarily worked as a standing member of the Party Committee and deputy mayor of Hohhot City in Inner Mongolia Autonomous Region. Earlier, from March 2011 to March 2012, he was Party Committee member and assistant general manager of China Export Credit Insurance Corporation. Between October 2001 and March 2011, he was staff member, assistant general manager, deputy general manager and general manager of the human resources department (assistant director, deputy director and director of the organisation department under the Party Committee) of China Export Credit Insurance Corporation, secretary of Party Committee of the company's Shenzhen branch, and person in charge, secretary of Party Committee and general manager of the company's Hebei provincial branch. Before that, from July 1991 to October 2001, he was a staff member, chief staff member and deputy director of the People's Insurance Company of China. Mr. Xie is an economist and graduated from Renmin University of China with a doctorate degree in economics.

Mr. Xiao Huan (**肖歡**) is the secretary of the Committee for Disciplinary Inspection of the Bank. Mr. Xiao has been secretary of the Committee for Disciplinary Inspection and member of the Party Committee of the Bank since December 2019. Prior to that, Mr. Xiao was director of the Party affairs department and executive deputy secretary of Party Committee directly under CITIC Group from March 2018 to December 2019. From March 2003 to April 2018, Mr. Xiao served as head of the organisation division of the organisation department (human resources and education department) of the Party Committee of CITIC Group; deputy chief and chief of the organisation division and assistant director of the Party affairs department of CITIC Group; deputy secretary (temporary post) of the Committee for Disciplinary Inspection of China CITIC Bank; and deputy secretary of the Committee for Disciplinary Inspection and general manager of Department for Disciplinary Inspection and Supervision of China CITIC Bank. From July 1994 to March 2003, he was a teacher at the Moral Education Office of PLA Medical College and an officer at the Political Department of Beijing Military Medical College. Mr. Xiao graduated from PLA Nanjing Institute of Political Sciences with a bachelor's degree in laws.

Mr. Lu Wei (**蘆葦**) is a business director of the Bank. Mr. Lu has been business director of the Bank since July 2019; secretary of Party Committee of the Bank's Shenzhen Branch since January 2019; a board director of JSC Altyn Bank since June 2018; a board director of CITIC aiBank since August 2017; and deputy head of the preparatory team for the establishment of the Bank's Hong Kong Branch since September 2016. On 25 November 2020, the board of directors of the Bank resolved to appoint Mr. Lu as a vice president of the Bank and such appointment will become effective upon approval by the CBIRC. He was board secretary, company secretary and authorised representative of the Bank from January 2017 to July 2019. Previously, Mr. Lu was general manager of the asset and liability department of the Bank between October 2016 and January 2019; general manager of the budget and finance department (now finance and accounting department) of the Bank from September 2013 to October 2016; and deputy general manager (presiding) of the budget and finance department from March to September 2013. Between January 1997 and March 2013, he worked at the business department at the head office of the Bank, holding various positions including deputy section chief and deputy division chief at the corporate banking department (during which period, from March 2001 to January 2002, he was seconded by the Bank to HSBC Jersey Branch), head, deputy general manager (presiding) and general manager of the Bank's Xidan sub-branch, general manager of the Bank's Capital Mansion sub-branch, general manager of the Bank's interbank business department, and Party Committee member, assistant general manager and deputy general manager of the business department at the Bank's head office. Between July 1994 and January 1997, Mr. Lu worked for Beijing Youth Industrial Group Corporation. Mr. Lu is a certified public accountant of PRC, Hong Kong and Australia, with over 20 years' experience in the Chinese banking industry. He graduated from Deakin University in Australia with a master's degree in accounting.

Mr. Lu Jingen (**陸金根**) is a business director of the Bank. Mr. Lu has been business director of the Bank since 20 August 2018; and secretary of Party Committee and president of Nanjing Branch of the Bank since September 2016. Prior to that, Mr. Lu served as secretary of Party Committee and president of the Bank's Changsha Branch from November 2012 to September 2016; secretary of Party Committee, vice president (presiding) and president of the Bank's Kunming Branch from March 2007 to November 2012; and assistant general manager (presiding) of the corporate banking department of the Bank from May 2006 to March 2007. He worked at the business department of the Bank's head office from January 1999 to May 2006, successively serving as deputy head of the corporate loan division, head of the asset preservation division, general manager of the Asian Games Village subbranch, general manager of the Olympic Village sub-branch, general manager of the CITIC International Building sub-branch, and assistant general manager and Party Committee member of the business department at the head office. Earlier, he worked at the credit department of the Bank from August 1994 to January 1999. Mr. Lu is a senior economist with over 20 years' experience in the Chinese banking industry. He graduated from Harbin Engineering University with a bachelor's degree in mechatronics, received his master's degree in economics from Renmin University of China and obtained his master of business administration degree from Peking University.

Mr. Lü Tiangui (呂天貴) is a business director of the Bank. Mr. Lü has been business director of the Bank since 20 August 2018; secretary of Party Committee of the Bank's credit card centre since May 2014; concurrently general manager of the Bank's retail banking department and private banking department since September 2017; and a core member of the China Ageing Finance Forum (CAFF50) since October 2019. On 25 November 2020, the board of directors of the Bank resolved to appoint Mr. Lü as a vice president of the Bank and such appointment will become effective upon approval by the CBIRC. Previously, Mr. Lü served as president of the Bank's credit card centre from May 2014 to January 2019. Between January 2003 and May 2014, he was deputy general manager of the finance and law department, general manager of the operation department and general manager of the customer service department of the credit card centre of the Bank, as well as assistant president, Party Committee member and vice president of the credit card centre. Earlier, from August 1993 to January 2003, he was deputy chief of the risk management division at Jilin Branch of Bank of China Corporation Limited. Mr. Lü has 26 years' practicing experience in the Chinese banking industry. He holds qualifications such as senior accountant, certificated internal auditor and PRC certified public accountant. Mr. Lü graduated from Sichuan University with a master's degree in business administration.

Ms. Zhang Qing (張青) is the secretary to the board of directors and company secretary of the Bank. Ms. Zhang has been secretary to the board of directors and company secretary of the Bank since July 2019, the head of the organizing department of the Party Committee and general manager of the human resources management department of the Bank since November 2014. Concurrently, Ms. Zhang is also a director of CITIC Financial Leasing and CNCB (Hong Kong) Investment Limited. Prior to that, Ms. Zhang served as general manager of the credit management department of the Bank from August 2013 to November 2014. From October 2001 to August 2013, she successively held various positions at the Bank's Xi'an Branch, including assistant general manager, deputy general manager (presiding), and general manager of the credit management and approval department, assistant president, Party Committee member and vice president of the branch. From April 1993 to October 2001, Ms. Zhang worked at the Shaanxi branch of Industrial and Commercial Bank of China, successively working on the accounting, planning, credit management in the sub-branch and project review in the branch. Ms. Zhang is a senior economist and graduated from Xi'an University of Technology (formerly "Shaanxi Institute of Mechanical Engineering") with a master's degree in Engineering. She has 27 years of professional experience in the Chinese banking industry.

Mr. Liu Honghua (劉紅華) is a business director of the Bank. Mr. Liu has served as business director of the Bank since August 2019, secretary of Party Committee of the business department of the head office of the Bank since July 2017, and general manager of the business department of the Bank's head office since July 2018. Previously, Mr. Liu worked in the head office of the Bank as general manager of the asset custody department and the corporate banking department successively from January 2016 to July 2017; secretary of Party Committee and president of Taiyuan Branch of the Bank from May 2013 to January 2016. From April 2002 to May 2013, he worked for the business department of the head office of the Bank, and held various positions including president of the Bank's Fuhua Sub-branch, general manager of the corporate banking department, assistant general manager, Party Committee member and deputy general manager of the business department. From December 1986 to April 2002 when he worked for China Leasing Co., Ltd., he successively served as assistant manager, deputy manager and manager of the second business department, assistant manager of the company and manager, deputy general manager of the administrative management division. From August 1986 to December 1986, he worked at China International Trust Investment Company. Mr. Liu graduated from Peking University with a degree of Executive Master of Business Administration. He is a senior economist, and has nearly 18 years of professional experience in the Chinese banking industry.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Bank believes to be reliable, but none of the Issuer, the Bank or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None the Issuer, the Bank or any other party to the Fiscal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

BOOK-ENTRY SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service. The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, authorised institutions under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA. Compared with clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU Service.

TRANSFERS OF NOTES REPRESENTED BY REGISTERED GLOBAL NOTES

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear, Clearstream and the CMU Service will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. Euroclear, Clearstream and the CMU Service have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear, Clearstream and the CMU Service. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Bank, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Euroclear, Clearstream or the CMU Service or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with the CBIRC and PBOC acting as the principal regulatory authorities. The CBIRC is primarily responsible for supervising and regulating banking institutions, and the PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC's banking industry consist principally of the Law of PRC on the People's Bank of China (the "**PRC PBOC Law**"), the PRC Commercial Banking Law (中華人民共和國商業銀行法), the Law of PRC on Regulation of and Supervision over the Banking Industry (中華人民共和國銀行業監督管理法), and the rules and regulations promulgated thereunder.

CBIRC

Functions and Powers

CBIRC, established as combination of the former China Banking and Regulatory Commission and China Insurance Regulatory Commission, is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign banking institutions in the PRC.

According to the Law of PRC on Supervision and Administration of Banking Sector, the main responsibilities of CBIRC include:

- formulating and promulgating rules and regulations governing banking institutions and their business activities;
- reviewing and approving the establishment, change, dissolution and business scope of banking institutions;
- regulating the business activities of banking institutions, including the products and services they offer;
- setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;
- setting guidelines and standards for risk management, internal controls, capital adequacy ratio, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site inspection and off-site surveillance of the business activities and risk levels of banking institutions;
- imposing integrated supervision on banking institutions;
- establishing emergency disposal mechanisms with relevant authorities in the banking sector and formulating emergency disposal plans;
- imposing corrective and punitive measures for violations of applicable banking regulations; and
- drafting and publishing statistics and financial statements of national banking institutions.

Examination and Supervision

CBIRC, through its head office in Beijing and offices across the PRC, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include inspecting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks and monitoring banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks. If a banking institution is not in compliance with a regulation, CBIRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and asset transfers, suspension of new branches opening and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBOC Law, PBOC is empowered to:

- formulate and implement monetary policies in accordance with the laws;
- issue Renminbi, the currency of the PRC, and regulate the flow of Renminbi;
- regulate the inter-bank lending market and inter-bank bond market;
- implement foreign exchange controls and regulate inter-bank foreign exchange market;
- regulate the gold market;
- hold, administer and manage the PRC's foreign exchange reserves and gold reserves;
- manage the state treasury;
- maintain the normal operation of payment and settlement systems; and
- guide and supervise anti-money laundering efforts of financial institutions and monitor fund transfers to ensure that such transfers are in compliance with anti-money laundering regulations.

OTHER REGULATORY AUTHORITIES

In addition to CBIRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, but not limited to, the MOF, NDRC and SAFE.

REGULATIONS REGARDING CAPITAL ADEQUACY

In March 2004, CBIRC implemented the Capital Adequacy Measures applicable to all commercial banks in the PRC. The Capital Adequacy Measures provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, CBIRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007.

In June 2012, the CBIRC issued the Capital Management Regulations regulating capital adequacy ratios ("**CAR**") of PRC commercial banks, which abolish the Capital Adequacy Measures amended on 3 July 2007. The Capital Management Regulations, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of "capital" and "risk-weighted assets". The overall CAR requirements are 11.5 per cent. for domestic systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the Capital Management Regulations as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{(Total Capital} - \text{deductions from corresponding capital instruments)}}{\text{(Risk-weighted Assets)}} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{(Tier 1 Capital} - \text{deductions from corresponding capital instruments)}}{\text{(Risk-weighted Assets)}} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{(Core Tier 1 Capital} - \text{deductions from corresponding capital instruments)}}{\text{(Risk-weighted Assets)}} \times 100\%$$

Further details regarding the basic principles of such calculations can be obtained at the official website of the CBIRC.

The contents of this website do not form a part of this Offering Circular.

On 29 November 2012, the CBIRC released the Guiding Opinions of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (中國銀監會關於商業銀行資本工具創新的指導意見) and an amendment on 22 November 2019 (關於商業銀行資本工具創新的指導意見(修訂)) (together, the "**Innovation on Capital Instruments Guiding Opinions**"), allowing and encouraging commercial banks to develop capital instruments (including tier 2 capital instruments) that comply with the Capital Management Regulations. Pursuant to the Innovation on Capital Instruments Guiding Opinions, Additional Tier 1 Capital instruments and Tier 2 Capital instruments issued by a commercial bank after 1 January 2013 must contain a provision that requires such instruments to be either written off or converted into common stock upon the occurrence of a triggering event. A triggering event for Additional Tier 1 Capital instruments occurs when the Core Tier 1 Capital Adequacy Ratio of the commercial bank falls to 5.125 per cent. or below. A triggering event for tier 2 capital instruments occurs upon the earlier of: (i) a decision of write-off or share conversion, without which the commercial bank would become non-viable, as determined by the CBIRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities. Following the amendment on 22 November 2019, the Innovation on Capital Instruments Guiding Opinions' further require that: (i) when the same triggering event occurs, the Additional Tier 1 Capital instrument shall be written down or converted into shares in full amount, before the write-down or share conversion of the Tier 2 Capital instrument is launched; and (ii) when the same triggering event occurs, each capital instrument of the same tier shall be written down or converted into shares at the same time, in proportion to the percentage for which the instrument accounts of the total amount of the capital instruments of that tier. The amended Innovation on Capital Instruments Guiding Opinions further demand that both kinds of triggering events stated above shall be set concurrently for Additional Tier-1 Capital instruments to be issued after the amendment if classified in accounting as liabilities.

On 3 April 2014, the CBIRC and CSRC promulgated the Guiding Opinions of the China Banking Regulatory Commission and China Securities Regulatory Commission on the Issuance of Preference Shares by Commercial Banks to Replenish Tier-one Capital (中國銀行業監督管理委員會、中國證券監督管理委員會關於商業銀行發行優先股補充一級資本的指導意見) which was amended on 11 June 2019, the commercial banks issuing preference shares shall comply with relevant regulations promulgated by the State Council and CSRC and the requirements of capital instruments released by CBIRC, and the Core Tier 1 Capital Adequacy Ratio shall comply with the prudential regulation principles formulated by CBIRC. The commercial banks issuing preference shares to supplement tier 1 capital shall comply with the criteria of the Additional Tier 1 Capital instruments under the Capital Management Regulations and the Guiding Opinions, and shall not issue the preference shares with put provisions.

On 18 January 2018, the CBIRC, the PBOC, the CSRC and the State Administration of Foreign Exchange jointly released the Opinions on Further Supporting Commercial Banks' Innovation on Capital Instruments (中國銀監會、中國人民銀行、中國證監會、中國保監會、國家外匯管理局關於進一步支持商業銀行資本工具創新的意見), further supporting the beneficial exploration of commercial banks for innovating capital instruments, expanding the channels for issuance of capital instruments, increasing capital instrument types, creating favourable conditions for commercial banks to issue capital bonds without fixed terms, Tier-2 capital bonds to be converted into shares, capital bonds containing regular share conversion clauses, bonds with total loss-absorbing capacity and other capital instruments and improving the approval of issuance of capital instruments.

PRC CURRENCY CONTROLS

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Program of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法) (the "**Pilot Program Measures**") and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Pilot Program Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 27 July 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

On 1 November 2014, the PBOC introduced a cash pooling arrangement for qualified multinational enterprise group companies, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. On 5 September 2015, the PBOC promulgated the Circular on Further Facilitating the Cross-Border Bi-directional Renminbi Cash Pooling Business by Multinational Enterprise Groups (關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知) (the "**2015 PBOC Circular**"), which, among others, have lowered the eligibility requirements for multinational enterprise groups and increased the cap for net cash inflow. The 2015 PBOC Circular also provides that enterprises within a pilot free trade zone in the PRC, such as the China (Shanghai) Pilot Free Trade Zone may establish an additional cash pool in the local scheme in such pilot free trade zone, but each onshore company within the group may only elect to participate in one cash pool.

Accordingly, offshore enterprises are entitled to use Renminbi to settle imports of goods and services and other current account items. Renminbi remittance for exports of goods from the PRC may only be effected by (a) enterprises with the foreign trading right and incorporated in a province which has already submitted a list of key enterprises subject to supervision (the "**Supervision List**") (for the avoidance of doubt, that PRC enterprise does not necessarily need to be included in the Supervision List) or (b) enterprises that have been approved as a pilot enterprise for using Renminbi for exports before the PBOC and five other PRC authorities have reviewed and approved the Supervision List submitted by relevant province.

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (銀發[2013]168號), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for the PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow the PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross-border remittance).

On 23 October 2019, the SAFE promulgated the Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知(匯發[2019]29號)) which became effective on 1 February 2020. SAFE has decided to review and integrate certain foreign exchange accounts and further reduce the types of accounts in order to further intensify the reform of foreign exchange administration, simplifying the relevant business operating procedures, and facilitate true and compliant foreign exchange transactions by banks, enterprises and other market participants, for example, "current accounts – foreign currency cash account" and "current accounts – foreign exchange account under current accounts of overseas institutions" are included in "current accounts – foreign exchange settlement account".

On the same day, the SAFE issued the Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知(匯發[2019]28號)), based on which, for the revenue obtained by an enterprise from trade in goods, the enterprise may, on its own, decide whether to open a to-be-inspected account for export revenue ("**to-be-inspected account**"). If an enterprise has not opened a to-be-inspected account, the examined revenue from trade in goods by the bank in accordance with the existing provisions may be directly deposited into the foreign exchange account under current accounts or used for foreign exchange settlement.

On 29 April 2019, the SAFE issued Administrative Measures for the Foreign Exchange Service of Payment Institutions (支付機構外匯業務管理辦法), which facilitates domestic institutions and individuals to carry out e-commerce trade through the internet, standardizes the cross-border foreign exchange payment services provided by payment institutions, and prevents the risk of cross-border capital flows through the internet channel.

The foregoing measures and circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Pilot Program Measures and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filling with, the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital account item payments including proceeds from liquidation, transfer of shares, reduction of capital and principal repayment under foreign debt to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 7 April 2011, the SAFE issued the Notice on Relevant Issues regarding Streamlining the Business Operation of Cross-border RMB Capital Account Items (國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知), which clarifies that the borrowing by an onshore entity (including a financial institution) of Renminbi loans from an offshore creditor shall in principle follow the current regulations on borrowing foreign debts and the provision by an onshore entity (including a financial institution) of external guarantees in Renminbi shall in principle follow the current regulations on the provision of external guarantees in foreign currencies.

On 3 December 2013, the MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM RMB FDI Circular**") which became effective on 1 January 2014. Pursuant to the MOFCOM RMB FDI Circular, the proceeds from foreign direct investment in Renminbi may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investment in PRC domestic listed companies under the PRC strategic investment regime with the approval of the MOFCOM pursuant to the Administrative Measures for Strategic Investment by Foreign Investors in Listed Companies (外國投資者對上市公司戰略投資管理辦法).

On 3 June 2011, the PBOC promulgated the Circular on Clarifying Issues concerning Cross-border Renminbi Settlement (中國人民銀行關於明確跨境人民幣業務相關問題的通知) (the "**2011 PBOC Circular**"). The 2011 PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The 2011 PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the relevant local PBOC authorities which include, inter alia, requisite approval letters issued by the relevant MOFCOM authorities.

On 13 October 2011, the PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the "**PBOC RMB FDI Measures**") and amended it on 29 May 2015, to commence the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the 2011 PBOC Circular is no longer necessary. On 14 June 2012, the PBOC further issued the implementing rules for the PBOC RMB FDI Measures.

On 19 November 2012, the SAFE promulgated the Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the "**SAFE Circular on DI**"), which became effective on 17 December 2012 and was amended on 4 May 2015, 10 October 2018 and 30 December 2019. According to the SAFE Circular on DI, the SAFE removes or adjusts certain administrative licensing items with regard to foreign exchange administration over direct investments to promote investment, including, but not limited to, the abrogation of SAFE approval for opening of and payment into foreign exchange accounts under direct investment accounts, the abrogation of SAFE approval for reinvestment with legal income generated within China of foreign investors, the simplification of the administration of foreign exchange reinvestments by foreign investment companies, and the abrogation of SAFE approval for purchase and external payment of foreign exchange under direct investment accounts.

On 5 July 2013, the PBOC promulgated the Notice on Simplifying the Procedures of Cross-border Renminbi Business and Improving Relevant Policies (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBOC Circular**"), which simplifies the operating procedures on current account cross-border Renminbi settlement, provision of Renminbi outbound loans and Renminbi cross-border security in favour of offshore entities by onshore non-financial institutions, and further published policies with respect to bank card related cross-border Renminbi clearing and issuance of offshore Renminbi bonds by onshore non-financial institutions. The 2013 PBOC Circular intends to improve the efficiency of cross-border Renminbi settlement and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

On 30 March 2015, SAFE promulgated the Notices of Reformation on Administration of Settlement of Capital Foreign Exchange of Foreign-invested Enterprises (關於改革外商投資企業外匯資本金結匯管理方式的通知(匯發[2015]19號)), which became effective on 1 June 2015. In order to further deepen the reform of the foreign exchange administration system, better satisfy and facilitate the needs of foreign-invested enterprises for business and capital operation, the SAFE has decided to reform the management approach regarding the settlement of the foreign exchange capital of foreign-invested enterprises nationwide on the basis of summarising the pilot experience of certain regions in the early days. The key points of this notice set out as the following:

- the foreign exchange capital of foreign-invested enterprises shall be subject to the discretional foreign exchange settlement;

- the capital in Renminbi obtained by foreign-invested enterprises from the discretionary settlement of foreign exchange capital shall be managed under the account pending for foreign exchange settlement payment;

- the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises;

- facilitating foreign-invested enterprises in carrying out domestic equity investment with the capital obtained from foreign exchange settlement;

- further standardising the administration of payment by the capital obtained by foreign exchange settlement;

- administration of the settlement and use of the capital in other foreign exchange accounts under direct investment; and

- further strengthening the ex-post regulation as well as investigation on and punishment against violations by the foreign exchange bureaus.

Previously, Renminbi may only be converted for capital account expenses once the prior approval of the SAFE had been obtained. However, according to the Circular of the SAFE on Further Simplifying and Improving the Foreign Exchange Administration Policies of Foreign Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知(匯發[2015]13號)) issued on 28 February 2015, the SAFE authorised some qualified local banks in the PRC to carry out foreign exchange procedures in relation to inbound and outbound investment from 1 June 2015.

On 26 January 2017, the SAFE issued the Notice on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核政策的通知(匯發[2017]3號)) to further advance the reform of foreign exchange administration, such as:

- settlement of domestic foreign exchange loans are allowed for export trade in goods. A domestic institution shall repay loans with the foreign exchange funds received from export trade in goods, rather than, in principle, purchased foreign exchange;

- a debtor may directly or indirectly repatriate the funds under guarantee and use them domestically by, among others, granting loans and making equity investment domestically. Where a bank performs its guarantee obligation under overseas loans with domestic guarantee, relevant foreign exchange settlement and sale shall be managed as the bank's own foreign exchange settlement and sale;

- the deposits absorbed by a domestic bank through its principal international foreign exchange account and allowed to be used domestically are no more than 100 per cent. of the average daily deposit balance in the previous six months as opposed to the former 50 per cent.; and the funds used domestically are not included in the bank's outstanding short-term external debt quota;

- allowing foreign exchange settlement in the domestic foreign exchange accounts of overseas institutions within pilot free trade zones: Where funds are repatriated and used domestically after settlement, a domestic bank shall, under the relevant provisions on cross-border transactions, handle such funds by examining the valid commercial documents and vouchers of domestic institutions and domestic individuals; and

- where a domestic institution grants overseas loans, the total of the balance of overseas loans granted in domestic currency and the balance of overseas loans granted in foreign currency shall not exceed 30 per cent. of owner's equity in the audited financial statements of the previous year.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of foreign investors eligible to directly invest in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In 2018, the China Foreign Exchange Trade System further relaxed qualifications, application materials and the procedures for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

On 23 October 2019, the SAFE promulgated Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知(匯發[2019]29號)) which became effective on 1 February 2020, according to which, several measures were taken to intensify, for example, "capital accounts – special account for domestic reinvestment" is included in "capital accounts – foreign exchange capital account".

On the same day, the SAFE issued Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知(匯發[2019]28號)) in order to further promote the reform of "simplification of administrative procedures and decentralization of powers, combination of decentralization and appropriate control, and optimization of services". It cancelled restrictions on the use of funds in domestic asset realization accounts for foreign exchange settlement and restrictions on the number of opened foreign exchange accounts under capital accounts.

The foregoing circulars, notices and measures will be subject to interpretation and application by the relevant PRC authorities. There is no assurance that approval of such remittances, borrowing or provision of external guarantee in Renminbi will continue to be granted or will not be revoked in the future. Further, since the remittance of Renminbi by way of investment or loans are now categorised as capital account items, such remittances are subject to the specific requirements or restrictions set out in the relevant SAFE rules.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as "non-PRC Noteholders" or "non-resident Noteholders" in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and the PRC Individual Income Tax Law, as amended on 30 June 2011 and 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-resident Noteholders, including non-resident enterprises and non-resident individuals.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation ("**SAT**") issued the Circular of Full Implementation of Business Tax to VAT Reform (關於全面推開營業稅改徵增值稅試點的通知) (Caishui [2016] No. 36, "**Circular 36**") which confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China, but where the services are sold by offshore entities or individuals to onshore entities or individuals and such services purely take place outside the PRC, they should not be deemed as services sold within the territory of China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the Issuer.

(I) In the event that the Issuer is the Bank's head office (the "Bank Head Office")

In the event that the Issuer is the Bank Head Office, the Bank Head Office will be subject to withholding PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to such arrangement. Further, given that the Bank Head Office is located in the PRC, the holders of the Notes would be regarded as providing the financial services within China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. Given that the Issuer pays interest income to Noteholders who are located outside of the PRC, the Issuer, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC. The Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

Under the Enterprise Income Tax Law and its implementation rules, any gains realised on the transfer of the Notes by holders who are deemed as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Notes would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between the mainland China and Hong Kong for avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

(II) In the event that the Issuer is an overseas branch of the Bank

In the event that the Issuer is an overseas branch of the Bank, the Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders **provided that** the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

In the case of issuance of Notes by an overseas branch of the Bank, Circular 36 does not apply if the provision of loans by individuals or entities located outside the PRC takes place outside the PRC. Neither the overseas branch of the Bank nor the holders of the Notes are located in the PRC and if the provision of loans takes place outside the PRC, then no VAT is payable on interest payments under the Notes. This is, however, subject to the interpretation of Circular 36 by the relevant authority.

If the Bank Head Office shall perform the obligation of paying interest of the Notes in the event and only when the Issuer fails to perform its obligations of paying the interest of the Notes, the Bank Head Office will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax and local levies at the rate of 6.72 per cent. of the interest component of the amount payable by the Bank Head Office to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in China, accordingly such capital gains would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable. According to an arrangement between the mainland China and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes. There is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

The above statements on VAT may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law and the VAT reform detailed above, the Issuer shall withhold EIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC Noteholder and the Issuer shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that the Issuer is required to make such a deduction or withholding (whether by way of EIT or VAT otherwise), the Issuer has agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "*Terms and Conditions of the Notes – Condition 8 (Taxation)*".

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong; or

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Where the Hong Kong branch of the Bank is the Issuer, pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, *inter alia*, an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus involving the issue of the Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of the Notes by the Issuer is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source, unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes by the Issuer, **provided that** either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes, **provided that** either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

UNITED STATES FATCA TAX PROVISIONS

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

DEALER AGREEMENT

Subject to the terms and on the conditions contained in the dealer agreement dated 28 December 2020 (such dealer agreement as modified and/or supplemented and/or restated from time to time, the "**Dealer Agreement**") made between the Bank, the Arranger and the permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer will reimburse the Arranger for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant subscription agreement.

The Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot Notes or effect transactions with a view to supporting the price of the Notes of the Series at a level higher than that which might otherwise prevail for a limited period after the Issue Date of the relevant Tranche of Notes, but in so doing, the Stabilisation Manager(s) or any person acting on behalf of the Stabilisation Manager(s) shall act as principal and not as agent of the Issuer. However, there is no obligation of such Stabilisation Manager(s) to do this. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the relevant Dealers.

The Arranger, the Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Arranger, the Dealers or any of their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with or for the Issuer and/or its affiliates for which they have received, or will receive, fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer's or their business. In addition, certain of the Arranger and Dealers, namely China CITIC Bank International Limited, is a subsidiary of the Bank. The net proceeds from each issue of the Notes may be on-lent by the Issuer to the Bank and/or any of its subsidiaries.

In the ordinary course of their various business activities, the Arranger, the Dealers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer or the Bank, including the Notes and could adversely affect the trading price and liquidity of the relevant Notes. The Arranger, the Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuer or the Bank and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer or the Bank.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates or affiliates of the Issuer may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers and/or their respective affiliates or affiliates of the Issuer may act as investors and place orders, receive allocations and purchase and trade Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations and/or trades of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being "offered" should be read as including any offering of the Notes to the Issuer, the Bank, the Arranger, the Dealers and/or their respective affiliates, or affiliates of the Issuer as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. If such transactions occur, the trading price and liquidity of such Notes may be impacted.

Furthermore, it is possible that a significant proportion of a Series of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in such Notes may be constrained. The Issuer, the Bank and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

UNITED STATES

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(a) The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (or, in certain circumstances, to, or for the account or benefit of, U.S. persons) except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

(b) Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Bearer Notes will be issued in accordance with the provisions of U.S. Treasury Regulation or section 1.163 – 5(c)(2)(i)(D), unless the relevant Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation or section 1.163 – 5(c)(2)(i)(C). The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

(c) In connection with any Notes which are offered or sold outside the United States in reliance on exemption from the registration requirements of the Securities Act provided under Category 1 of Regulation S ("**Category 1 of Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes constituting part of its allotment in the United States except in accordance with Rule 903 of Regulation S under the Securities Act, and that accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(d) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 2 of Regulation S ("**Category 2 of Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will offer, sell or deliver such Category 2 of Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Category 2 of Regulation S Notes are a part, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Category 2 of Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Category 2 of Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

(e) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

SELLING RESTRICTIONS ADDRESSING ADDITIONAL UNITED KINGDOM SECURITIES LAWS

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the relevant subscription agreement:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

    (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in the Prospectus Regulation (as defined below); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

PUBLIC OFFER SELLING RESTRICTION UNDER THE PROSPECTUS DIRECTIVE

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area and the United Kingdom (each, a "**Relevant State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant State except that it may make an offer of such Notes to the public in that Relevant State:

(a) *Approved prospectus:* if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) *Fewer than 150 offerees:* at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers:* at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, and the expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

SINGAPORE

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

HONG KONG

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (i) to "professional investors" as defined in the SFO and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

PEOPLE'S REPUBLIC OF CHINA

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong Special Administrative Region and Macau Special Administrative Region of the People's Republic of China or Taiwan), except as permitted by the securities laws of the People's Republic of China.

GENERAL

Each Dealer has agreed and each further Dealers appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer and any other Dealer shall have any responsibility therefor.

None of the Issuer and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction that would permit a public offering of any of the Notes, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

AUTHORISATION

1. The establishment of the Programme has been duly authorised pursuant to the resolutions of the Bank's board of directors dated 13 December 2018, the resolutions of the Bank's shareholder dated 30 January 2019 and the resolutions of the Bank's Party Committee Office dated 9 November 2020 and 10 November 2020.

LISTING

2. Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12 month period from the date of this Offering Circular. The issue price of listed Notes on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the date of listing of the relevant Notes.

NDRC APPROVAL

3. Where applicable for a relevant Tranche of Notes, the Notes will be issued in accordance with either (i) the pre-issuance filing and registration with the NDRC to obtain the Enterprise Overseas Debt Issuance Filing and Registration Certificate (企業發行外債備案登記證明) prior to the issuance of the Notes under the Programme pursuant to the NDRC Circular, or (ii) the then applicable annual foreign debt quota granted by the NDRC to the Bank for any issuance of the Notes pursuant to the NDRC Circular.

4. In the case of (i), the Bank will make a pre-issuance registration with the NDRC, followed by a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes. In the case of (ii), the Bank is able to rely on such annual foreign debt quota granted by the NDRC and is not required to make any pre-issuance registration for issuance of the Notes within the annual foreign debt quota with the NDRC. However, the Bank will be required to make a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes.

CLEARING SYSTEMS

5. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

6. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of the CMU Service is 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

LEGAL ENTITY IDENTIFIER

7. The legal entity identifier of the Bank is 300300C1030211000384.

NO SIGNIFICANT CHANGE

8. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank or of the Group since 30 June 2020 and there has been no material adverse change in the financial position or prospects of the Bank or of the Group since 30 June 2020.

LITIGATION

9. Save as disclosed in this Offering Circular, neither the Issuer nor any member of the Group is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Group.

INDEPENDENT AUDITOR

10. The independent auditor of the Bank is PricewaterhouseCoopers, a Certified Public Accountant under The Hong Kong Institute of Certified Public Accountants and Registered Public Interest Entity Auditor.

11. The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, the independent auditor of the Bank, in accordance with ISA, as stated in their reports included in this Offering Circular.

12. The unaudited but reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2020, which are included elsewhere in this Offering Circular, have been reviewed by PricewaterhouseCoopers, the independent auditor of the Bank, in accordance with the International Standard on Review Engagements 2410, as stated in their report included in this Offering Circular.

DOCUMENTS

13. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong:

    (a) the constitutional documents of the Bank;

    (b) the audited consolidated financial statements of the Group in respect of the years ended 31 December 2018 and 2019 (in each case together with the audit report in connection therewith). The Bank currently prepares audited consolidated accounts on an annual basis;

    (c) the unaudited but reviewed consolidated interim financial statements of the Group in respect of the six months ended 30 June 2020 (together with the review report in connection therewith);

    (d) the most recent annual audited consolidated financial statements of the Group and the most recently published unaudited consolidated interim financial statements of the Group (if any);

    (e) the Fiscal Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

    (f) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein; and

    (g) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Notes:

(1) The independent auditor's reports on the Group's consolidated financial statements for the years ended 31 December 2018 and 2019 set out herein are reproduced from the Group's annual reports for the years ended 31 December 2018 and 2019, respectively. Page references referred to in the abovenamed reports refer to pages set out in such annual reports. These independent auditor's reports and the consolidated financial statements have not been specifically prepared for inclusion in this Offering Circular.

(2) The report on the review of interim financial infomration for the six months ended 30 June 2020 set out herein is reproduced from the Group's interim report for the six months ended 30 June 2020. Page references referred to in the abovenamed report refer to pages set out in such interim report. This report on review of interim financial information and the unaudited consolidated interim financial statements have not been specifically prepared for inclusion in this Offering Circular.

To the Shareholders of China CITIC Bank Corporation Limited

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

Opinion

What we have audited

The consolidated financial statements of China CITIC Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 181 to 320, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Measurement of expected credit losses for loans and advances to customers and financial investments
- Consolidation of structured entities – Non-principal guaranteed wealth management products
- De-recognition of financial assets

Key Audit Matter	How our audit addressed the Key Audit Matter

Measurement of expected credit losses for loans and advances to customers and financial investments

Refer to Note 4(c), Note 5(i), Note 25 and Note 26 to the consolidated financial statements.

As at 31 December 2018, the Group's gross loans and advances to customers amounted to RMB3,616.75 billion, and a loss allowance of RMB101.10 billion was recognized in the Group's consolidated statement of financial position; the Group's gross financial investments was RMB1,291.95 billion, and a loss allowance of RMB4.41 billion was recognized in the Group's consolidated statement of financial position.

The balances of loss allowances for the loans and advances to customers and financial investments represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under International Financial Reporting Standard 9: Financial Instruments expected credit losses models.

We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of ECL for loans and advances to customers, and financial investments, primarily including:

(1) Governance over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on-going monitoring and optimization of the models;

(2) Internal controls relating to significant management judgments and assumptions, including the review and approval of model selections, parameters estimation, identification of significant increase in credit risk, defaults or credit-impaired loans, and forward-looking measurement;

(3) Internal controls over the accuracy and completeness of key inputs used by the models;

(4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances and financial investments in stage 3;

(5) Internal controls over the information systems for model-based measurement.

Key Audit Matter	How our audit addressed the Key Audit Matter

Measurement of expected credit losses for loans and advances to customers and financial investments (continued)

The management assesses whether the credit risk of loans and advances to customers and financial investments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances and financial investments classified into stages 1 and 2, and all personal loans, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and advances and financial investments in stage 3, the management assesses loss allowance by estimating the cash flows from the loans.

The measurement models of ECL involves significant management judgments and assumptions, primarily including the following:

(1) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

The substantive procedures we preformed primarily included:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management.

We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans.

For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments (continued)	
(2) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (3) The estimated future cash flows for corporate loans and advances and financial investments in stage 3. The Group established governance processes and controls for the measurement of ECL. For measuring ECL, the management adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the exposures of the loans and advances to customers and financial investments, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also performed walk-through testing and reconciliation of the transmission of major data inputs between the models' measurement engines and the information systems, to verify their accuracy and completeness. For corporate loans and advances and financial investments in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, and financial investments, the models, key parameters, significant judgements and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of Structured Entities – Non-principal Guaranteed Wealth Management Products	
Refer to Note 4(a), Note 5(vii) and Note 65 to the consolidated financial statements. As at 31 December 2018, unconsolidated structured entities included non-principal guaranteed wealth management products ("WMPs") issued and managed by the Group. Management's decision on whether or not to consolidate structured entities was based on an assessment of the Group's power, its variable returns and the ability to exercise its power to influence the variable returns from these structured entities. We focused on the consolidation assessment and judgment made by management involving the structured entities for non-principal guaranteed WMPs during our audit, as whether or not to consolidate these entities involved significant judgment.	We evaluated and tested the design and operating effectiveness of management's relevant controls over the consolidation of structured entities for non-principal guaranteed WMPs. These controls primarily included the review and approval of the contractual terms, the results in variable return calculations, and the consolidation assessment conclusions for these structured entities. We selected samples of structured entities for non-principal guaranteed WMPs and performed the following tests: • assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities; • performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; • assessed whether the Group acted as a principal or an agent through analysis of the scope of the Group's decision-making authority, its remuneration entitlement, other interests the Group held, and the rights held by other parties. Based on the procedures performed above, we found management's judgment relating to the consolidation of structured entities for non-principal guaranteed WMPs acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
De-recognition of Financial Assets	
Refer to Note 4(c), Note 5(vi) and Note 66 to the consolidated financial statements. During the year ended 31 December 2018, the Group entered into transactions which involved transfers of financial assets including those through securitisation and loan transfers. Management analysed the Group's contractual rights and obligations in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred by using models to determine whether the de-recognition criteria were met. Where necessary, the Group assessed whether it had relinquished its control over the transferred financial assets to determine whether the de-recognition criteria were met. The de-recognition assessment relating to the transfer of financial assets involved significant judgment from management, and as such, we focused our audit on the de-recognition of these financial assets.	We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of financial assets, including the review and approval of the structure designs and contractual terms of the transactions, the approval of models for testing the transfer of risks and rewards of ownership and the key parameters and assumptions used in the models, as well as the review and approval of management's assessment results. We selected samples and read through transaction agreements to assess the contractual rights and obligations of the Group, and whether the Group transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows, to independent third parties. We also assessed the appropriateness of the models, the parameters and assumptions, the discount rates, and the variability factors. We also tested the mathematical accuracy of the calculations. For financial assets where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, we analysed whether the Group had relinquished its controls over these financial assets, and if the Group had a continuing involvement in these transferred financial assets. Based on the procedures performed above, we found management's assessment over de-recognition of transferred financial assets acceptable.

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of 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 Directors and Those Charged with Governance 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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. We report our opinion 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 HKSAs 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 HKSAs, we exercise professional judgment 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.

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

Chapter 10 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Interest income		**233,793**	220,762
Interest expense		**(129,021)**	(121,117)
Net interest income	6	**104,772**	99,645
Fee and commission income		**50,739**	51,687
Fee and commission expense		**(5,591)**	(4,829)
Net fee and commission income	7	**45,148**	46,858
Net trading gain	8	**6,519**	6,583
Net gain from investment securities	9	**9,046**	3,757
Net hedging (loss)/gain	10	**(1)**	1
Other operating income		**282**	387
Operating income		**165,766**	157,231
Operating expenses	11	**(52,600)**	(48,913)
Operating profit before impairment		**113,166**	108,318
Impairment losses on			
— Loans and advances to customers		**—**	(50,170)
— Others		**—**	(5,617)
Total impairment losses	12	**—**	(55,787)
Credit impairment losses	13	**(57,886)**	—
Impairment losses on other assets	14	**(347)**	—
Revaluation gain on investment properties		**35**	30
Share of loss of associates and joint ventures		**(642)**	(285)
Profit before tax		**54,326**	52,276
Income tax expense	15	**(8,950)**	(9,398)
Profit for the Year		**45,376**	42,878
Net profit attributable to:			
Equity holders of the Bank		**44,513**	42,566
Non-controlling interests		**863**	312
Profit for the year		**45,376**	42,878
Other comprehensive income, net of tax:	16		
Items that will not be reclassified to profit or loss (net of tax):			
— Net changes on the measurement of defined benefit plan		**7**	(8)
— Fair value changes on financial investments designated at fair value through other comprehensive income		**11**	—
— Fair value changes on transfers from owner-occupied property to investment property		**65**	—
Items that may be reclassified subsequently to profit or loss (net of tax):			
— Other comprehensive income transferable to profit or loss under equity method		**(10)**	(9)
— Fair value changes on available-for-sales financial assets		**—**	(8,042)
— Fair value changes on financial assets at fair value through other comprehensive income		**10,040**	—
— Impairment allowance on financial assets at fair value through other comprehensive income		**140**	—
— Exchange difference on translating foreign operations		**2,209**	(2,583)
Other comprehensive income, net of tax	16	**12,462**	(10,642)
Total comprehensive income for the year		**57,838**	32,236
Total comprehensive income attribute to:			
Equity holders of the Bank		**57,022**	31,924
Non-controlling interests		**816**	312
Earnings per share attributable to the ordinary shareholders of the Bank			
Basic and diluted earnings per share (RMB)	17	**0.88**	0.84

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

Chapter 10 Consolidated Statement of Financial Position

As at 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	**31 December 2018**	31 December 2017
Assets			
Cash and balances with central banks	18	**538,708**	568,300
Deposits with banks and non-bank financial institutions	19	**99,153**	124,350
Precious metals		**4,988**	3,348
Placements with and loans to banks and non-bank financial institutions	20	**176,160**	172,069
Financial assets at fair value through profit or loss	21	—	65,904
Derivative financial assets	22	**31,991**	65,451
Financial assets held under resale agreements	23	**10,790**	54,626
Interest receivables	24	—	32,643
Loans and advances to customers	25	**3,515,650**	3,105,984
Financial investments	26	**1,600,163**	—
— at fair value through profit or loss		**308,872**	—
— at amortised cost		**778,238**	—
— at fair value through other comprehensive income		**510,346**	—
— designated at fair value through other comprehensive income		**2,707**	—
Available-for-sale financial assets	27	—	631,690
Held-to-maturity investments	28	—	216,586
Investments classified as receivables	29	—	531,118
Investments in associates and joint ventures	30	**3,881**	2,341
Investment properties	32	**443**	295
Property, plant and equipment	33	**21,385**	21,330
Intangible assets		**1,879**	1,139
Goodwill	34	**896**	849
Deferred tax assets	35	**23,174**	21,825
Other assets	36	**37,453**	57,843
Total assets		**6,066,714**	5,677,691
Liabilities			
Borrowings from central banks		**286,430**	237,600
Deposits from banks and non-bank financial institutions	38	**782,264**	798,007
Placements from banks and non-bank financial institutions	39	**115,358**	77,595
Financial liabilities at fair value through profit or loss		**962**	—
Derivative financial liabilities	22	**31,646**	64,937
Financial assets sold under repurchase agreements	40	**120,315**	134,500
Deposits from customers	41	**3,649,611**	3,407,636
Accrued staff costs	42	**10,549**	8,838
Taxes payable	43	**4,920**	8,858
Interest payable	44	—	39,323
Provisions	45	**5,013**	796
Debt securities issued	46	**552,483**	441,244
Deferred tax liabilities	35	**16**	8
Other liabilities	47	**54,061**	45,916
Total liabilities		**5,613,628**	5,265,258

As at 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	31 December 2018	31 December 2017
Equity			
Share capital	48	**48,935**	48,935
Preference shares	49	**34,955**	34,955
Capital reserve	50	**58,977**	58,977
Other comprehensive income	51	**5,269**	(11,784)
Surplus reserve	52	**34,450**	31,183
General reserve	53	**74,255**	74,251
Retained earnings	54	**179,820**	163,121
Total equity attributable to equity holders of the Bank		**436,661**	399,638
Non-controlling interests	55	**16,425**	12,795
Total equity		**453,086**	412,433
Total liabilities and equity		**6,066,714**	5,677,691

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

Approved and authorised for issue by the board of directors on 26 March 2019.

Li Qingping	**Fang Heying**	**Li Peixia**	**Company stamp**
Chairperson	*Executive Director, Vice President and Chief Financial Officer*	*General Manager of Finance Department*	

Chapter 10 Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary equity holders	Other equity instruments holders	Total equity
As at 31 December 2017		**48,935**	**34,955**	**58,977**	**(11,784)**	**31,183**	**74,251**	**163,121**	**7,646**	**5,149**	**412,433**
Change in accounting policy	3(c)	**–**	**–**	**–**	**4,544**	**(939)**	**–**	**(9,502)**	**(235)**	**–**	**(6,132)**
As at 1 January 2018		**48,935**	**34,955**	**58,977**	**(7,240)**	**30,244**	**74,251**	**153,619**	**7,411**	**5,149**	**406,301**
(i) Net profit		**–**	**–**	**–**	**–**	**–**	**–**	**44,513**	**574**	**289**	**45,376**
(ii) Other comprehensive income	16	**–**	**–**	**–**	**12,509**	**–**	**–**	**–**	**(47)**	**–**	**12,462**
Total comprehensive income		**–**	**–**	**–**	**12,509**	**–**	**–**	**44,513**	**527**	**289**	**57,838**
(iii) Contribution by non-controlling shareholders	55	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,343**	**3,343**
(iv) Profit appropriations											
– Appropriations to surplus reserve	52	**–**	**–**	**–**	**–**	**4,206**	**–**	**(4,206)**	**–**	**–**	**–**
– Appropriations to general reserve	53	**–**	**–**	**–**	**–**	**–**	**4**	**(4)**	**–**	**–**	**–**
– Dividend distribution to ordinary shareholders of the Bank	54	**–**	**–**	**–**	**–**	**–**	**–**	**(12,772)**	**–**	**–**	**(12,772)**
– Dividend distribution to preference shareholders of the Bank		**–**	**–**	**–**	**–**	**–**	**–**	**(1,330)**	**–**	**–**	**(1,330)**
– Dividend distribution to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
– Dividend distribution to other equity instruments holders	55	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(289)**	**(289)**
As at 31 December 2018		**48,935**	**34,955**	**58,977**	**5,269**	**34,450**	**74,255**	**179,820**	**7,933**	**8,492**	**453,086**

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary equity holders	Other equity instruments holders	Total equity
As at 1 January 2017		48,935	34,955	58,636	(1,142)	27,263	73,911	136,666	123	5,149	384,496
(i) Net profit		–	–	–	–	–	–	42,566	22	290	42,878
(ii) Other comprehensive income	16	–	–	–	(10,642)	–	–	–	–	–	(10,642)
Total comprehensive income		–	–	–	(10,642)	–	–	42,566	22	290	32,236
(iii) Contribution by non-controlling shareholders	55	–	–	341	–	–	–	–	7,506	–	7,847
(iv) Profit appropriations											
– Appropriations to surplus reserve	52	–	–	–	–	3,920	–	(3,920)	–	–	–
– Appropriations to general reserve	53	–	–	–	–	–	340	(340)	–	–	–
– Dividend distribution to ordinary shareholders of the Bank	54	–	–	–	–	–	–	(10,521)	–	–	(10,521)
– Dividend distribution to preference shareholders of the Bank		–	–	–	–	–	–	(1,330)	–	–	(1,330)
– Dividend distribution to non-controlling interests		–	–	–	–	–	–	–	(5)	–	(5)
– Dividend distribution to other equity instruments holders	55	–	–	–	–	–	–	–	–	(290)	(290)
As at 31 December 2017		48,935	34,955	58,977	(11,784)	31,183	74,251	163,121	7,646	5,149	412,433

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

Chapter 10 Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Year ended 31 December	
	2018	2017
Operating activities		
Profit before tax	**54,326**	52,276
Adjustments for:		
— revaluation gain/(loss) on investments, derivatives and investment properties	**2,825**	(1,434)
— investment gain	**(7,897)**	(1,006)
— net loss/(gain) on disposal of property, plant and equipment, intangible assets and other assets	**(363)**	9
— unrealised foreign exchange loss/(gain)	**8**	(415)
— credit impairment losses	**57,886**	55,515
— impairment losses on other assets	**347**	272
— depreciation and amortisation	**2,942**	2,811
— interest expense on debt securities issued	**22,416**	19,171
— dividend income from equity investment	**(320)**	(178)
— income tax paid	**(15,875)**	(14,521)
Subtotal	**116,295**	112,500
Changes in operating assets and liabilities:		
Decrease in balances with central banks	**68,403**	14,730
Decrease/(increase) in deposits with banks and non-bank financial institutions	**3,159**	(9,442)
Decrease in placements with and loans to banks and non-bank financial institutions	**42,501**	10,896
Decrease in financial assets at fair value through the profit or loss	**—**	14,712
Decrease in financial assets held under resale agreements	**43,837**	116,178
Increase in loans and advances to customers	**(450,950)**	(365,544)
Decrease in investments in financial assets held for trading purposes	**17,850**	—
Decrease in investments classified as receivables	**—**	503,423
Decrease in deposits from banks and non-bank financial institutions	**(19,990)**	(183,284)
Increase in borrowings from central banks	**43,980**	53,550
Increase/(decrease) in placements from banks and non-bank financial institutions	**36,480**	(4,921)
Increase in financial liabilities at fair value through profit or loss	**958**	—
Decrease/(increase) in financial assets sold under repurchase agreements	**(14,229)**	14,162
Increase/(decrease) in deposits from customers	**196,044**	(215,583)
Decrease in other operating assets	**6,721**	495
Increase/(decrease) in other operating liabilities	**11,257**	(7,798)
Subtotal	**(13,979)**	(58,426)
Net cash flows from operating activities	**102,316**	54,074

Chapter 10 Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	Year ended 31 December **2018**	 2017
Investing activities			
Proceeds from disposal and redemption of investments		**1,396,004**	1,007,237
Proceeds from disposal of property, plant and equipment, land use rights, and other assets		**1,154**	52
Cash received from equity investment income		**320**	178
Payments on acquisition of investments		**(1,535,459)**	(1,131,592)
Payments on acquisition of equipment and other assets		**(4,754)**	(7,980)
Net cash paid for acquisition of associates and joint ventures	30	**(1,838)**	(1,590)
Net cash flows used in investing activities		**(144,573)**	(133,695)
Financing activities			
Cash received from share capital issued		**—**	7,847
Cash received from debt securities issued	46	**922,161**	862,890
Cash received from other equity instruments issued	55	**3,343**	—
Cash paid for redemption of debt securities issued		**(815,230)**	(801,447)
Interest paid on debt securities issued		**(21,836)**	(17,699)
Dividends paid		**(14,396)**	(12,146)
Net cash flows from financing activities		**74,042**	39,445
Net increase/(decrease) in cash and cash equivalents		**31,785**	(40,176)
Cash and cash equivalents as at 1 January		**337,915**	385,356
Effect of exchange rate changes on cash and cash equivalents		**6,309**	(7,265)
Cash and cash equivalents as at 31 December	56	**376,009**	337,915
Cash flows from operating activities include:			
Interest received		**220,101**	226,761
Interest paid		**(113,272)**	(101,237)

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

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

1 Corporate information

China CITIC Bank Corporation Limited (the "Bank" or "CNCB") is a joint stock company incorporated in the People's Republic of China (the "PRC" or "Mainland China") on 31 December 2006. Headquartered in Beijing, the Bank's registered office is located at No.9 Chaoyangmen Beidajie, Dongcheng District, Beijing, China. The Bank listed its A shares and H shares on Shanghai Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited, respectively on 27 April 2007.

The Bank operates under financial services certificate No. B0006H111000001 issued by the China Banking Insurance Regulatory Commission (the "CBIRC", originally named China Banking Regulatory Commission), and unified social credit code No. 91110000101690725E issued by the State Administration of Industry and Commerce of the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, finance leasing and other non-banking financial services.

As at 31 December 2018, the Group mainly operates in Mainland China with branches covering 31 provinces, autonomous regions and municipalities. In addition, the Bank's subsidiaries have operations in Mainland China, the Hong Kong Special Administrative Region of PRC ("Hong Kong") and other overseas countries and regions.

For the purpose of these consolidated financial statements, Mainland China refers to the PRC excluding Hong Kong, the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The consolidated financial statements were approved by the Board of Directors of the Bank on 26 March 2019.

2 Basis of preparation

These consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements for the year ended 31 December 2018 comprise the Bank and its subsidiaries, associates and joint ventures.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Functional currency and presentation currency

The functional currency of the Bank is Renminbi ("RMB"). The functional currencies of overseas subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into Renminbi for the preparation of the consolidated financial statements according to Note 4(b)(ii). The consolidated financial statements of the Group are presented in Renminbi and, unless otherwise stated, expressed in millions of Renminbi.

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and at fair value through other comprehensive income, and investment properties, which are carried at fair value.

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 5.

(a) New and amended standards adopted by the Group in 2018

The Group has adopted the following new or amendments to the International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current year and relevant to the Group.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IAS 28	IASB Annual Improvements 2014 – 2016 cycle
Amendments to IAS 40	Transfer of Investment Property
International Financial Reporting Interpretations Committee 22 ("IFRIC 22")	Foreign Currency Transactions and Advance Consideration

The new accounting policies of IFRS 9 – Financial Instruments and their impacts are disclosed in Note 3(c) Changes in accounting policies. The adoption of the other new standards and amendments do not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(b) Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and amended standards and new interpretations that have been issued but are not yet effective.

		Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	IASB Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19	Employee Benefits' Regarding Plan Amendment, Curtailment or Settlement	1 January 2019

3 Statement of compliance (Continued)

(b) Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

IFRS 16: Leases

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. The standard replaces IAS 17 'Leases', and related interpretations.

IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or the lease is short-term, in the consolidated statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability in the consolidated statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

The impact of IFRS 16 will mainly be the accounting treatment of the Group as a lessee. The right-of-use asset and the lease liability reflecting future lease payments will be recognised by the Group in the consolidated statement of financial position except for those the commitment is of low value or is short-term, or those commitment arrangement which is not qualified as lease under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group apply the standard from its mandatory adoption date of 1 January 2019. The Group apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. As a lessor or lessee, there will be no significant impact on the Group's consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 – Uncertainty over income tax treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation does not have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

In October 2017, the IASB amended IFRS 9 by issuing Prepayment Features with Negative Compensation. As a result of those amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income. The adoption of this amendment does not have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 – IASB Annual Improvements 2015 – 2017 Cycle

The IASB Annual Improvements 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income taxes and IAS 23 – Borrowing Costs. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

3 Statement of compliance (Continued)

(b) Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

On 12 October 2017, the IASB issued amendments to IAS 28 – Investments in Associates and Joint Ventures to clarify that company's account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 19 – Employee benefits' regarding plan amendment, curtailment or settlement

On 8 February 2018, the IASB issued amendments to IAS 19 – Employee benefits' regarding plan amendment, curtailment or settlement to require an entity to determine the amount of any past service cost, or gain or loss on settlement by measuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

(c) Changes in accounting policies

The Group has adopted the revised IFRS 15 – Revenue issued by the IASB in May 2014 and the corresponding principles to prepare the consolidated financial statement for fiscal year 2018. The adoption of the above standards does not have a significant impact on the Group's consolidated financial statements.

The Group has adopted IFRS 9 – Financial Instruments issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

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

Consequently, for notes disclosures, the consequential amendments to International Financial Reporting Standard 7 'Financial Instruments: Disclosures' (IFRS 7) have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Further details of the specific IFRS 9 accounting policies applied in the current period are described in Note 4 (c).

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

IAS 39 Financial assets	IAS 39 Measurement category	IAS 39 Carrying amount	IFRS 9 Measurement category	IFRS 9 Financial assets	IFRS 9 Carrying amount
Cash and balances with central banks	Amortised cost	568,300	Amortised cost	Cash and balances with central banks	568,300
Deposits with banks and non-bank financial institutions	Amortised cost	124,350	Amortised cost	Deposits with banks and non-bank financial institutions	124,290
Placements with and loans to banks and non-bank financial institutions	Amortised cost	172,069	Amortised cost	Placements with and loans to banks and non-bank financial institutions	171,905
Financial assets at fair value through profit or loss	Financial assets at FVPL	60,129	Financial assets at FVPL	Financial investments	65,246
	Financial assets designated at FVPL	5,775	Financial assets designated at FVPL		658
Derivative financial assets	Fanancial assets at FVOCI	65,451	Fanancial assets at FVOCI	Derivative financial assets	65,451
Financial assets held under resale agreements	Amortised cost	54,626	Amortised cost	Financial assets held under resale agreements	54,589
Interest receivables	Amortised cost	32,643	Amortised cost	Interest receivables	25,455
Loans and advances to customers	Amortised cost	3,105,984	Amortised cost	Loans and advances to customers	3,093,081
			Financial assets at FVOCI		5,903

IAS 39 Financial assets	IAS 39 Measurement category	IAS 39 Carrying amount	IFRS 9 Measurement category	IFRS 9 Financial assets	IFRS 9 Carrying amount
Available-for-sale financial assets	Fanancial assets at FVOCI	631,690	Financial assets at FVPL	Financial investments	131,547
			Amortised cost		105,573
			Fanancial assets at FVOCI		399,219
			Financial assets designated at FVOCI		605
Held-to-maturity investments	Amortised cost	216,586	Financial assets at FVPL	Financial investments	12,155
			Amortised cost		204,886
Investments classified as receivables	Amortised cost	531,118	Financial assets at FVPL	Financial investments	183,921
			Amortised cost		327,541
			Fanancial assets at FVOCI		24,679
Other financial assets	Amortised cost	26,313	Amortised cost	Other financial assets	25,813

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 Carrying amount 31 December 2017	Reclassification	Remeasurements	IFRS 9 Carrying amount 1 January 2018
Cash and balances with central banks				
Amortised cost	568,300	—	—	568,300
Deposits with banks and non-bank financial institutions				
Amortised cost	124,350	—	(60)	124,290
Placements with and loans to banks and non-bank financial institutions				
Amortised cost	172,069	—	(164)	171,905
Derivative financial assets				
At fair value through profit or loss	65,451	—	—	65,451
Financial assets held under resale agreements Amortised cost	54,626	—	(37)	54,589
Interest receivables				
Amortised cost	32,643	(6,164)	(1,024)	25,455
Loans and advances to customers				
Amortised cost	3,105,984	(5,908)	(6,995)	3,093,081
At fair value through other comprehensive income	—	5,908	(5)	5,903
Total	3,105,984	—	(7,000)	3,098,984

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassification	Remeasurements	IFRS 9 Carrying amount 1 January 2018
Financial assets at fair value through profit or loss				
At fair value through profit or loss	60,129	(60,129)	—	—
Designated at fair value through profit or loss	5,775	(5,775)	—	—
Financial investments				
At fair value through profit or loss	—	65,246	—	65,246
Designated at fair value through profit or loss	—	658	—	658
Total	65,904	—	—	65,904
Available-for-sale financial assets				
At fair value through other comprehensive income	631,690	(631,690)	—	—
Financial investments				
At fair value through profit or loss	—	131,442	105	131,547
Amortised cost	—	100,451	5,122	105,573
At fair value through other comprehensive income	—	399,192	27	399,219
Designated at fair value through other comprehensive income	—	605	—	605
Total	631,690	—	5,254	636,944
Held-to-maturity investments				
Amortised cost	216,586	(216,586)	—	—
Financial investments				
At fair value through profit or loss	—	11,620	535	12,155
Amortised cost	—	204,966	(80)	204,886
Total	216,586	—	455	217,041
Investments classified as receivables				
Amortised cost	531,118	(531,118)	—	—
Financial investments				
At fair value through profit or loss	—	178,507	5,414	183,921
Amortised cost	—	327,517	24	327,541
At fair value through other comprehensive income	—	25,094	(415)	24,679
Total	531,118	—	5,023	536,141
Other financial assets				
Amortised cost	26,313	—	(500)	25,813

(Amounts in millions of Renminbi unless otherwise stated)

3 Statement of compliance (Continued)

(c) Changes in accounting policies (Continued)

(iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Allowance and provisions under IAS 39	Reclassification	Remeasurements	Allowance and provisions under IFRS 9
Deposits with banks and non-bank financial institutions	—	—	60	60
Placements with and loans to banks and non-bank financial institutions	1	—	164	165
Financial assets held under resale agreements	—	—	37	37
Interest receivables	3,946	—	1,024	4,970
Loans and advances to customers				
— Amortised cost	90,903	—	6,995	97,898
— At fair value through other comprehensive income	—	—	7	7
Available-for-sale financial assets	78	(78)	—	—
Investments classified as receivables	2,943	(2,943)	—	—
Financial investments				
— Amortised cost	—	2,684	360	3,044
— At fair value through other comprehensive income	—	337	613	950
Other financial assets	2,601	—	133	2,734
Subtotal	100,472	—	9,393	109,865
Off-balance sheet credit assets	402	—	4,155	4,557
Total	100,874	—	13,548	114,422

(iv) Financial assets that have been reclassified to the amortised cost category

For financial assets that have been reclassified to the amortised cost category, the following table shows their fair value as at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9.

	31 December 2018
Reclassified into amortised cost	
From available-for-sale financial assets(IAS 39) reclassified to financial assets at amortised cost (IFRS 9)	
Fair values as at 31 December 2018	**93,836**
Fair value gain that would have been recognised during the year if the financial assets had not been reclassified	**3,856**

4 Summary of significant accounting policies

(a) Consolidated financial statements

(i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities assumed are measured based on their carrying amounts in the financial statements of the acquiree at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total face value of shares issued) is adjusted against share premium in the capital reserve with any excess adjusted against retained earnings. The issuance costs of equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. The combination date is the date on which one combining enterprise obtains control of other combining enterprises.

(ii) Business combinations not involving entities under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before the business combination. Where (i) the aggregate of the acquisition date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (ii) the acquirer's interest in the acquisition date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (Note 4(l)). If (i) is less than (ii), the difference is recognised in the consolidated statement of profit or loss for the current period. The issuance costs of equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed as incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in the consolidated statement of profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquire will be reclassified to profit or loss.

(iii) Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Bank and its subsidiaries, as well as structured entities controlled by the Group. 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. When assessing whether the Bank has power, only substantive rights (held by the Bank and other parties) are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest is presented separately in the consolidated statement of financial position within owners' equity. Profit or loss and total comprehensive income attributable to non-controlling equity holders are presented separately in the consolidated statement of profit or loss and other comprehensive income.

When the amount of loss for the current period attributable to the non-controlling interest of a subsidiary exceeds the non-controlling interest's portion of the opening balance of equity holders' equity of the subsidiary, the excess is allocated against the non-controlling interests.

4 Summary of significant accounting policies (Continued)

(a) Consolidated financial statements (Continued)

(iii) Consolidated financial statements (Continued)

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated only limited to the extent that this is no evidence of impairment.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date the ultimate controlling party first obtained control. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated.

Where a subsidiary was acquired during the reporting period, through a business combination not involving enterprises under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Where the Bank acquires a non-controlling interest from a subsidiary's non-controlling equity holders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the non-controlling interests are adjusted and the amount of the consideration paid or received is adjusted to capital reserve (share premium) in the consolidated statement of financial position. If the credit balance of capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group derecognises assets, liabilities, non-controlling interests and other related items in equity holders' equity in relation to that subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any gains or losses therefore incurred are recognised as investment income for the current period when the control is lost.

If there is a difference between the accounting entity of a Group and the accounting entity of the bank or a subsidiary on mearsuring the same transaction, the transaction will be adjusted from the perspective of the Group.

(b) Foreign currency translations

(i) Translation of foreign currency transactions

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated into Renminbi by applying the spot exchange rates at the dates of the transaction. Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the reporting date. The resulting exchange differences are recognised in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rate at the date the fair value is determined. The differences arising from the translation of financial assets at fair value through other comprehensive income is recognised in other comprehensive income. Changes in the fair value of monetary assets denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortised cost are recognised in the consolidated statement of profit or loss, and other changes in the carrying amount are recognised in other comprehensive income. The translation differences resulting from other monetary assets and liabilities are recognised in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(b) Foreign currency translations (Continued)

(ii) Translation of financial statements denominated in foreign currency

Financial statements denominated in foreign currency are translated into Renminbi for the preparation of consolidated financial statements. The assets and liabilities in the financial statements denominated in foreign currency are translated into Renminbi at the spot exchange rates prevailing at the reporting date. The equity items, except for "retained earnings", are translated to Renminbi at the spot exchange rates at the dates on which such items arose. Income and expenses 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. The resulting exchange differences are recognised in other comprehensive income.

Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in equity holders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency are reported in the statement of cash flows.

(c) Financial instruments

IFRS 9 (applicable since 1 January 2018)

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell asset.

(i) Initial recognition and classification of financial instruments

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost

The business model adopted by the Group for managing its financial assets refers to how the Group manages its financial assets in order to generate cash flows. The business model determines whether the cash flows from the financial assets managed by the Group come from the collection of contractual cash flows, sale of financial assets or a combination of the two methods. In determining the business model for a group of financial assets, the Group considers various factors, including: past experience in collecting cash flows from this group of assets; how to assess the performance of this group of asset and report it to key management personnel; how to assess and manage risks are; and how to compensate people responsible for managing these assets, among others.

The contractual cash flow characteristics of financial assets refer to contractual terms as agreed in the financial instrument contracts that reflect the economic characteristics of the financial assets, i.e., the contractual cash flows arising at a specified date from the financial assets are solely payments of principal and interest on the principal amount outstanding. Of which, the principal is the fair value of the financial asset at initial recognition, and the amount of the principal may change over the life of the financial asset, if, e.g., there are repayments of principal; and the interest includes consideration for the time value of money, and credit risk, other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Financial assets with embedded derivatives are considered in their entirety when determing whether their cash flows are solely payment of principal and interest.

The classification requirements for debt instruments and equity instruments are described below:

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(i) Initial recognition and classification of financial instruments (Continued)

Financial assets (Continued)

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on: i) the Group's business model for managing the asset; and ii) the cash flow characteristics of asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cashflows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost.

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting the liabilities. A financial instrument is an equity instrument if, and only if, both conditions i) and ii) below are met:

i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity investments of the Group are measured at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. After designation, the fair value change is recognised in the other comprehensive income and it is not allowed to subsequently reclassify to profit or loss (including upon disposal). Impairment loss and reversal of impairment is not presented separately in the financial statement and is included in the fair value change. Dividend income as the return from investments is recognised by the Group when the right to receive is formed.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(i) Initial recognition and classification of financial instruments (Continued)

Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortised cost on initial recognition. Financial liabilities at FVPL is applied to derivatives, financial liabilities held for trading and financial liabilities designated as such at initial recognition.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's key management personnel.

(ii) Measurement of financial assets

Initial measurement

Financial assets at FVPL are stated at fair value. Financial assets at fair value through profit or loss, transaction costs that are directly attributable to profit or loss. Financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets.

Subsequent measurement

Subsequent measurement of financial assets depends on the categories:

Financial assets measured at amortised cost

The amortised cost is the amount at which the financial asset is measured at initial recognition: i) minus the principal; ii) plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and maturity amount; iii) for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider expected credit losses ('ECL') and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of this gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(ii) Measurement of financial assets (Continued)

Subsequent measurement (Continued)

Financial assets measured at amortised cost (Continued)

Interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset, except for:

i) a POCI financial asset, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to its amortised cost; and

ii) a financial assets that is not a POCI financial asset but has subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to its amortised cost. If, in a subsequent period, the financial asset improves its quality so that it is no longer credit-impaired and the improvement in credit quality can be related objectively to a certain event occurring after the application of the above-mentioned rule, then the interest income can again be calculated by applying the effective interest rate to its gross carrying amount. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. If a floating-rate financial asset or a floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability.

If the Group revises its estimates of payments or receipts, the difference between the gross carrying amount of the financial asset or amortised cost of a financial liability calculated from revised estimated contractual cash flows and the present vaule of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate should be recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

When the financial assets is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments

Where an investment in an equity investment not held for trading is designated as a financial asset measured at fair value through other comprehensive income, the fair value changes of the financial asset is recognised in the other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to retained earnings. The dividends on the investment are recognised in profit or loss only when the Group's right to receive payment of the dividends is established.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(ii) Measurement of financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are stated at fair value and a gain or loss on a financial assets that is measured at fair value should be recognised in profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are measured at fair value with all gains or losses recognised in the profit or loss of the current period, except for financial liabilities designated as at fair value through profit or loss, where gains or losses on the financial liabilities are treated as follows:

- changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognised in other comprehensive income; and
- other changes in fair value of such financial liabilities are recognised in profit or loss of the current period.

(iii) Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with exposure arising from loan commitments, financial guarantee contracts and lease receivables.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, ie, all cashshort falls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures 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.

Detailed information about ECL in the above areas is set out in note 61(a).

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at fair value through other comprehensive income. The loss allowance is recongnised in other comprehensive income and the impairment loss is recognised in profit or loss, and it should not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-months ECL at the current reporting date and the amount of ECL reversal is recognise in profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(iii) Impairment of financial assets (Continued)

At the reporting date, the Group only recognises the cumulative changes in lifetime ECL since initial recognition as a loss allowance for POCI financial assets. At each reporting date, the Group recognises in profit or loss the amount of the changes in lifetime ECL as an impairment gain or loss.

(iv) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

(v) Derivatives and hedges

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(v) Derivatives and hedges (Continued)

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

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. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments for fair value hedges.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, 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.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 profit or loss over the period to maturity and recorded as net interest income.

(vi) Derecognition of financial assets

Financial assets

The Group derecognises a financial asset only when (1) the contractual rights to the cash flows from the asset expire, or (2) when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, or (3) when it transfers the financial asset and gives up the control of the transferred assets though the Group neither transfers nor retains substantially all the risks and rewards of ownership.

Where a transfer of a financial asset in its entirety meets the criteria for de-recognition, the difference between the two amounts below is recognised in the consolidated statement of profit and loss:

— the carrying amount of the financial asset transferred;

— the sum of the consideration received from the transfer and the cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(vi) Derecognition of financial assets (Continued)

Financial liabilities

Financial liabilities are derecognised when the related obligation is discharged, is cancelled or expires. An agreement between the Group and an existing lender to exchange the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit and loss.

(vii) Securitisation

As part of its operations, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. When the securitisation of financial assets that qualify for de-recognition, the relevant financial assets are de-recognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in the unconsolidated securitisation vehicles that the Group acquired. When the securitisation of financial assets that do not qualify for de-recognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability. When the securitisation of financial assets that partially qualify for de-recognition, where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial asset.

(viii) Sales of assets on condition of repurchase

De-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset

(ix) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the consolidated statement of financial position and are not offset. However, financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only if the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(x) Financial assets held under resale and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions which the Group acquires financial assets which will be resold at a predetermined price in the future date under resale agreements. Financial assets sold under repurchase agreements are transactions which the Group sells financial assets which will be repurchased at a predetermined price in the future date under repurchase agreements.

Cash advanced or received is recognised as amounts held under resale and repurchase agreements on the consolidated statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the consolidated statement of financial position.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IFRS 9 (applicable since 1 January 2018) (Continued)

(x) Financial assets held under resale and financial assets sold under repurchase agreements (Continued)

The difference between the resale and repurchase consideration, and that between the purchase and sale consideration, should be expired over the period of the respective transaction using the effective interest method and are included in interest expense and interest income, respectively.

(xi) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from equity holder's equity.

IAS 39 (applicable until 31 December 2017)

(i) Classification

The Group classifies financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred, and on the contractual terms of the financial instruments. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include those classified as held for trading, and those designated by the Group upon recognition as at fair value through profit or loss.

A financial asset is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial assets; or (iii) a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the hybrid (combined) contract; or (ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as financial assets at fair value through profit or loss or as available-for-sale financial assets; (ii) those that meet the definition of loans and receivables.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(i) Classification (Continued)

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: (i) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as financial assets at fair value through profit or loss or as available-for-sale financial assets. Loans and receivables mainly comprise balances with central banks, deposits and placements with and loans to banks and non-bank financial institutions, financial assets held under resale agreements, investments classified as receivables, and loans and advances to customers.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments or (iii) loans and receivables.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated by the Group upon recognition as at fair value through profit or loss.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial liabilities or are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial liabilities; or (iii) a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the hybrid (combined) contract; or (ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative is prohibited.

Other financial liabilities

Other financial liabilities are financial liabilities other than those at fair value through profit or loss, and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debts securities issued.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(ii) Derivatives and embedded derivatives

Derivatives mainly include forward and swap contracts in foreign currency market and interest rate market. The Group enters into derivatives to hedge its exposure on foreign exchange and interest rate risks; and for customer initiated transactions. The Group adopts hedge accounting in accordance with Note 4(c)(ix)for derivatives designated as hedging instruments if the hedge is effective. Other derivatives are accounted for as trading financial assets or financial liabilities. Derivatives are recognised at fair value upon initial recognition. Positive fair value is recognised as assets while the negative fair value is recognised as liabilities. Gain or loss on re-measurement to fair value is recognised immediately in the consolidated statement of profit or loss.

Certain derivative is embedded into a non-derivative instrument (the host contract). The embedded derivatives are separated from the host contract and accounted for as a derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. When the embedded derivative is separated, the host contract is accounted for in accordance with Note 4 (c)(i).

(iii) Recognition and de-recognition

All financial assets and financial liabilities are recognised in the consolidated statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expired; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group neither transfers nor retains substantially all the risks and rewards of ownership but does not continue to control the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for de-recognition, the difference between the two amounts below is recognised in the consolidated statement of profit or loss:

— the carrying amount of the financial asset transferred;

— the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(iii) Recognition and de-recognition (Continued)

Securitisation

As part of its operations, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for de-recognition of financial assets are set out above. When the securitisation of financial assets that qualify for de-recognition, the relevant financial assets are de-recognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in the unconsolidated securitisation vehicles that the Group acquired. When the securitisation of financial assets that do not qualify for de-recognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitisation of financial assets that partially qualify for de-recognition, where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial asset.

Sales of assets on condition of repurchase

De-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

Financial liability

Financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged/cancelled, or (ii) an agreement between the Group and an existing lender to exchange the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the consolidated statement of profit or loss.

(iv) Measurement

Financial instruments are measured initially at fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instruments. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost under effective interest rate method, while other categories of financial instruments are measured at fair value. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and fair value cannot be reliably measured are measured at cost.

Gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(iv) Measurement (Continued)

Gain or loss on an available-for-sale financial asset is recognised directly as other comprehensive income, except for impairment losses and foreign exchange gains or losses arising from the amortised cost portion of monetary financial assets which are recognised directly in the consolidated statement of profit or loss. When the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the consolidated statement of profit or loss. Dividend income from the available-for-sale equity instruments is recognised in the consolidated statement of profit or loss when the investee declares the dividends.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from other comprehensive income to the profit or loss.

For financial instrument carried at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial instrument is derecognised, impaired, or through the amortisation process.

(v) Impairment

The Group assesses at the reporting date the carrying amount of a financial asset (other than those at fair value through profit or loss). If there is objective evidence that the financial asset is impaired, the Group will recognise the impairment loss in the consolidated statement of profit or loss.

Objective evidence that a financial asset is impaired included but is not limited to:

— significant financial difficulty of the borrower or issuer;

— a breach of contract by the borrower or issuer, such as a default or delinquency in interest or principal payments;

— the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;

— it is probable that the borrower will enter bankruptcy or other financial reorganisations;

— disappearance of an active market for that financial asset because of financial difficulties of the issuer;

— 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 prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;

— significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the borrower or issuer operates, indicating that the advances to borrowers or the cost of an investment in an equity instrument may not be recovered;

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(v) Impairment (Continued)

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and

— other objective evidence indicating there is an impairment of a financial asset.

The Group first assesses whether objective evidence of impairment exists individually for all corporate loans, investments classified as receivables, available-for-sale financial assets and held-to-maturity investments, and collectively for the remainder of financial assets (other than those at fair value through profit or loss). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment.

Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, including loans and advances to customers, investments classified as receivables and held-to-maturity investments, an impairment loss is recognised in the consolidated statement of profit or loss when there is objective evidence that the assets are impaired. The impairment loss 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. 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 present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

Financial assets will be grouped according to the similarities of credit risk characteristics during the portfolio assessment of impairment. These credit risk characteristics are usually related to the future cash flow measurement of the asset being inspected, reflecting the debtor's ability to repay all due amounts in accordance with the contractual terms of these assets.

Impairment reversal and written-off

If, in a subsequent period, the amount of the impairment loss on financial assets carried at amortised cost including loans and advances to customers, Investments classified as receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal, had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of profit or loss.

When the Group determines that a financial asset carried at amortised cost has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the financial asset carried at amortised cost is written off against its allowance for impairment losses. If in a subsequent period the financial asset carried at amortised cost written off is recovered, the amount recovered will be recognised in the consolidated statement of profit or loss through impairment losses.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(v) Impairment (Continued)

Rescheduled loans

Rescheduled loans are loans that have been rescheduled due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Where possible, the Group seeks to reschedule loans rather than to take possession of collateral. This may involve the agreement of new loan conditions. The Group has analysed de-recognition of rescheduled loans in accordance with Note 4 (c)(iii). Management continuously reviews rescheduled loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, and the impairment allowance is calculated using the loan's original effective interest rate.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised directly in other comprehensive income is removed from other comprehensive income and recognised in the consolidated statement of profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from other comprehensive income is 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 consolidated statement of profit or loss. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of profit or loss, is removed from equity and recognised in the consolidated statement of profit or loss.

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at reporting date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at reporting date, it indicates that such an equity instrument is impaired. If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss shall be treated in accordance with following principle:

— impairment loss on debt instruments classified as available-for-sale should be reversed, with the amount of the reversal recognised profit or loss;

— impairment loss on equity instruments classified as available-for-sale should not be reversed through profit or loss, and any subsequent increase in the fair value of such assets is recognised directly in equity;

— impairment loss of available-for-sale equity investments carried at cost should not be reversed through the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

IAS 39 (applicable until 31 December 2017) (Continued)

(vi) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the consolidated statement of financial position and are not offset. However, financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only if the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vii) Financial assets held under resale and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions which the Group acquires financial assets which will be resold at a predetermined price in the future date under resale agreements. Financial assets sold under repurchase agreements are transactions which the Group sells financial assets which will be repurchased at a predetermined price in the future date under repurchase agreements.

Cash advanced or received is recognised as amounts held under resale and repurchase agreements on the consolidated statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the resale and repurchase consideration, and that between the purchase and sale consideration, should be expired over the period of the respective transaction using the effective interest method and are included in interest expense and interest income, respectively.

(viii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from equity holders' equity.

(ix) Hedging

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item is being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities (fair value hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging 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 of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 profit or loss over the period to maturity.

4 Summary of significant accounting policies (Continued)

(d) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes and precious metals leasing are initially measured at fair value and subsequent changes in fair value are recorded in the consolidated statement of profit or loss.

(e) Interests in subsidiaries

In the Bank's consolidated statement of financial position, interests in subsidiaries are accounted for using the cost less impairment losses (see Note 4 (n)). Cost includes direct attributable costs of investment. Dividends declared by subsidiaries are recognised in investment income.

Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(f) Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

When acquiring associates and joint ventures, the Group recognises as initial investment cost in the principle which: for the investments obtained by making payment in cash, the Group recognises the purchase cost which is actually paid as initial investment costs; for the investments obtained by equity securities, the Group recognises the fair value of the equity securities issued as initial investment cost.

An investment in an associate or a joint venture is accounted for using the equity method, unless the investment is classified as held for sale.

4 Summary of significant accounting policies (Continued)

(f) Interests in associates and joint ventures (Continued)

The Group adopts the following accounting treatments when using the equity method:

— Where the initial investment cost of an associate or joint venture exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

— After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's profit or loss, other comprehensive income or profit distribution, is recognised in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

— The Group recognises its share of investee's profits or losses, other comprehensive income and other changes in equity holders' equity after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures. When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

— The Group discontinues recognising its share of net losses of investees after the carrying amount of investment to the associates and joint ventures and any long-term interest that in substance forms part of the Group's net interest in the associates and joint ventures are reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Additional loss is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate. Where profits are subsequently made by the associates and joint ventures, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

The Group makes provisions for impairment of interests in associates and joint ventures in accordance with the principles described in Note 4 (n).

(g) Property, plant and equipment

Property, plant and equipment is asset held by the Group for the conduct of business and is expected to be used for more than one year. Construction-in-progress, an item of property, represents property under construction and is transferred to property when ready for its intended use.

4 Summary of significant accounting policies (Continued)

(g) Property, plant and equipment

(i) Cost

Property, plant and equipment is stated at cost upon initial recognition. Costs of a purchased property, plant and equipment comprise purchase price, related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. Costs of a self-constructed property, plant and equipment comprise construction materials, direct labor costs and those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent to initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated statement of profit or loss as an expense when incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost, less residual value if applicable, of property, plant and equipment and is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

	Estimated useful lives	*Estimated residual value*	*Depreciation rate*
Buildings	30 – 35 years	0%-5%	2.71%-3.33%
Computer equipment and others	3 – 10 years	0%-10%	9.00%-33.33%

No depreciation is provided in respect of construction in progress.

The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each reporting date.

(iv) Impairment

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 4 (n).

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss on the date of disposal or retirement.

4 Summary of significant accounting policies (Continued)

(h) Land use rights

Land use rights are stated at cost less amortisation and included under other assets. Land use rights are amortised on a straight-line basis over the respective periods of grant. 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 buildings and recorded in property, plant and equipment.

Impairment loss on land use rights is accounted for in accordance with the accounting policies as set out in Note 4 (n).

(i) Intangible assets

Intangible assets are initially recognised at cost. The cost less estimated net residual values (if any) of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment loss on intangible assets is accounted for in accordance with the accounting policies as set out in Note 4 (n). Impaired intangible assets are amortised net of accumulated impairment losses.

Intangible assets which are not yet available for use should be estimated at least at each financial year-end, even if there was no indication that the assets were impaired.

(j) Investment properties

Investment properties are land and/or buildings which are owned and/or held under a leasehold interest to earn rental income and/or for capital appreciation.

The Group's investment properties are accounted for using the fair value model for subsequent measurement when either of the following conditions is met:

— There is an active property market in the location in which the investment property is situated;

— The Group can obtain the market price and other relevant information regarding the same type of or similar properties from the property market, so as to reasonably estimate the fair value of the investment property.

Investment properties are stated at fair value in the consolidated statement of financial position. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of profit or loss.

When there is a change in use of properties from owner-occupation to earn rentals or for capital appreciation, the investment property transferring from property, plant and equipment or intangible assets is measured at fair value on the date of transfer. If the fair value on the transferred investment property is lower than the carrying amount of property, plant and equipment or intangible assets on the date of transfer, the difference is recognised in profit or loss, otherwise in the comprehensive income.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of profit and loss.

4 Summary of significant accounting policies (Continued)

(k) Lease

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(i) Finance leases

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receipts and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment"), is included in "loans and advances to customers" on consolidated statement of financial position as a finance lease receivable. At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable. The difference between the net lease investment and the aggregate of their present value is recognised as unearned finance income which is included in "loans and advances to customers" as well. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses are accounted in accordance with the accounting policies as set out in Note 4 (c)(v).

When the Group is a lessee under finance leases, an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease, is included in "property, plant and equipment" on the consolidated statement of financial position as a leased asset. An amount equals to the minimum lease payments is included in "other liabilities" on the consolidated statement of financial position recognised as a long-term payable. The difference between the recorded amount of the leased asset and the recorded amount of the payable shall be accounted for as unrecognised finance charge. The Group recognises financial charge for the current period using the effective interest method.

Depreciation policies are accounted in accordance with the accounting policies as set out in Note 4 (g) and impairment losses are accounted in accordance with the accounting policy as set out in Note 4 (n). If there is a reasonable certainty that the lessee will obtain ownership of the leased asset by the end of the lease term, the leased asset should be depreciated over its useful life. Otherwise, leased asset is depreciated over the shorter of the lease term and its estimated useful life.

(ii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 4(g) except where the asset is classified as an investment property. Impairment losses are accounted in accordance with the accounting policies as set out in Note 4(n). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 4 (u)(iv).

When the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

4 Summary of significant accounting policies (Continued)

(l) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or a group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs impairment test on goodwill annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in the consolidated statement of profit or loss.

On disposal of the related CGU or a group of CGUs, any attributable amount of the purchased goodwill net of allowance for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted in accordance with the accounting policies as set out in Note 4 (n).

(m) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

When the Group seizes assets to compensate for the losses of loans and advances and interest receivables, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets are included in the carrying value of repossessed assets.

When the fair value less costs to sell is lower than a repossessed asset's carrying amount, an impairment loss is recognised in the consolidated statement of profit or loss. Repossessed assets are recognised at the carrying value, net of allowance for impairment losses.

The repossessed assets are disposed after acquisition and cannot be used without authorisation. The repossessed assets that are transferred to own use are treated as newly purchased property, plant and equipment.

Any gain or loss arising from the disposal of the repossessed assets is included in the consolidated statement of profit or loss in the period in which the item is disposed.

(n) Allowance for impairment of non-financial assets

(i) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset other than goodwill such as investments in associates and joint ventures, property, plant and equipment, investment properties, intangible assets and other assets may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(n) Allowance for impairment of non-financial assets (Continued)

(ii) Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or the group of CGUs that is expected to benefit from the synergies of the combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that is largely independent of the cash flows from other assets or groups of assets.

The CGU or the group of CGUs to which goodwill has been allocated is tested for impairment by the Group annually, or whenever there is an indication that the CGU or the group of CGUs are impaired, by comparing the carrying amount of the CGU or the group of CGUs, including the goodwill, with the recoverable amount of the CGU or the group of CGUs. The recoverable amount of the CGU or the group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or the group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or a group of the CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of the CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of the CGUs containing the goodwill. In such circumstances, the Group tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or the group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or the group of CGUs, pro rata on the basis of the carrying amount of each asset. The carrying amount of an asset should not be reduced below the highest of its fair value less costs of disposal (if measurable); its value in use (if determinable) and zero.

An impairment loss in respect of goodwill is not reversed.

(o) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique (Note 63).

(p) Employee benefits

(i) Short-term employee benefits

During the accounting period when an employee has rendered service to the Group, the Group recognises the undiscounted amount of short-term employee benefits as a liability and as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset. Short-term employee benefits include wages, bonuses, labor union expenses and exployee education expenses, social insurance such as medical insurance, work-related injury insurance and maternity insurance, as well as housing provident funds, which are all calculated based on the regulated benchmark and ratio.

4 Summary of significant accounting policies (Continued)

(p) Employee benefits (Continued)

(ii) Post-employment benefits: Defined contribution plans

Pursuant to the relevant laws and regulations in the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are charged to profit or loss when the related services are rendered by the employees.

In addition to the statutory provision plan, the Bank's employees have joined its annuity scheme (the "scheme") which was established by the CITIC Group Corporation ("CITIC Group") in accordance with policies regarding the state owned enterprise annuity policy. The Bank has made annuity contributions in proportion to its employee's gross salaries which are expensed in the consolidated statement of profit or loss when the contributions are made.

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme for Hong Kong staff. Contributions are charged to profit or loss as and when the contribution fall due.

(iii) Post-employment benefits: Defined benefit plans

The defined benefit plans of the Group are supplementary retirement benefits provided to the domestic employees.

The Group adopts the projected unit credit actuarial cost method, using unbiased and mutually compatible actuarial assumptions to estimate the demographic and financial variables, to measure the obligation associated in the defined benefits plan. The discounted present value of the defined benefit obligation, is recognised as the liabilities of the defined benefit plans.

The Group recognises the obligation of defined benefit plans in the accounting period in which the employees render the related services. Past-service costs are recognised immediately in the consolidated statement of profit or loss. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss. Re-measurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(q) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

Government grants are recognised when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attaching to the grants. Government grants are measured at the amount received or will be received when recognised as monetary assets. Government grants are measured at fair value when recognised as non-monetary assets.

The grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. The grants related to income are government grants other than those related to assets. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in the consolidated statement of profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in the consolidated statement of profit or loss immediately. The Group uses the same statement method for similar government grants.

The prime based loan of the Group is calculated based on actual incoming loan as entry value and preferential interest rate. The direct interest charges against the cost of loan.

4 Summary of significant accounting policies (Continued)

(r) Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

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 amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(s) Provisions and contingent liabilities

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The Group recognise the loss allowance of financial guarantee contracts measured by ECL as a provision.

A contingent liability is (a) a possible obligation that arises from past events and whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or (b) a present obligation that arises from past events and it is not probable that an outflow of economic benefits is required to settle the obligation; or the amount of the obligation cannot be measured reliably. Such liability is disclosed as contingent liabilities under Note 57.

(t) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated financial statements as the risks and rewards of the assets reside with the customers.

Entrusted lending is the business where the Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

4 Summary of significant accounting policies (Continued)

(u) Income recognition

Revenue is the gross inflow of economic benefit arising in the course of the Group's ordinary activities when those inflows result in increases in equity, other than increases relating to contributions from owners. Revenue is recognised when the controls of related products or services is obtained and satisfy the other conditions for different type of revenues as below.

(i) Interest income

Interest income of financial assets is calculated using the effective interest method and included in the profit and loss. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly 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 instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan or anticipating will not, the fee is recognised as revenue on expiry.

(iii) Dividend income

Dividend income is recognised in the consolidated statement of profit or loss on the date when the Group's right to receive payment is established.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments receivable.

(v) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

4 Summary of significant accounting policies (Continued)

(v) Income tax

Current tax and deferred tax are recognised in the consolidated statement of profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current income tax is the expected tax payables on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payables in respect of previous periods. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences also arise from unused tax losses and unused tax credits. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

At the reporting date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and meet the additional conditions that deferred tax assets and liabilities relate to income taxes levied by the same authority on the same taxable entity.

(w) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturity of three months or less at acquisition.

(x) Profit distribution

Proposed dividends for ordinary shares which are declared and approved after the end of each reporting period are not recognised as a liability in the consolidated statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the notes to the consolidated financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved.

(y) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control, jointly control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

4 Summary of significant accounting policies (Continued)

(z) Operating segments

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker for the purposes of allocating resources and assessing performance. The Group considers the business from different perspectives including products and services and geographic areas. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

5 Critical accounting estimates and judgements

Preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and associated key assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Measurement of the expected credit loss allowance (IFRS 9)

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 61(a).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 61(a).

5 Critical accounting estimates and judgements (Continued)

(ii) Impairment losses on loans and advances to customers and investments classified as receivables (IAS 39)

Loans and advances to customers

The Group reviews its loans and advances to customers to assess impairment on a periodic basis during the year. In determining whether an impairment loss should be recognised in the consolidated statement of profit or loss, the Group makes estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to individually assessed loans and advances or pools of loans and advances to customers with similar risk characteristics, as described in Note 4 (c)(v) impairment of financial assets carried at amortised cost.

Significant judgments are made in the determination of whether objective evidence of impairment exists in individually assessed loans and advances to customers or pools of loans and advances to customers with similar risk characteristics. Among other things, objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations, overdue status, financial position of guarantors, latest collateral valuations, concession the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as increasing industry sector over-capacity or obsolescence, or deterioration in national or regional economic conditions that are correlated to increasing loans and advances to customers defaults. These judgments are made both during management's regular assessments of credit quality of loans and advances to customers and when other circumstances indicate the possibility that objective evidence of impairment may exist.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows related to individually assessed impaired loans and advances to customers. 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. Factors affecting these estimates include the availability and granularity of information related to specific borrowers; the results of regulatory reviews and the related portfolio analysis, and the clarity of the correlation between qualitative factors, such as industry sector performance or changes in regional economic conditions and loans and advances to customer's defaults of related borrowers.

Corporate loans and advances to customers not identified as impaired from individually assessments, together with all personal loans and advances to customers are included in in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. Migration model is used for corporate loans and roll rate models are used for personal loans considering the similarity of credit risks and applying key assumptions. Significant judgments are applied to the calculation of assessed impairment using these models. Critical factors affecting these judgments include modelling assumptions (e.g., loss given default) and levels of correlation between qualitative factors and loans and advances to customers default. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; (iii) high risk products and geographic locations; and (iv) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. The Group considers the impact of the changes and uncertainty in the macro-economic environment, in which the Group operates when assessing the methodologies and assumptions used for loss estimation, makes adjustments where appropriate.

5 Critical accounting estimates and judgements (Continued)

(ii) Impairment losses on loans and advances to customers and investments classified as receivables (IAS 39) (Continued)

Investments classified as receivables

In determining whether an impairment loss should be recognised in the consolidated statement of profit or loss, the Group makes significant estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to investments classified as receivables by underlying assets or groups of underlying assets with similar risk characteristics, as described in Note 4 (c)(v) Impairment of financial assets carried at amortised cost.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows based on the underlying assets related to individually significant impaired investment classified as receivables.

Investments classified as receivables not identified as impaired from the individual assessment are included in groups with similar credit risk characteristics by underlying assets with the consideration of risk factors specific to different industries and different type of underlying assets, and assessed for impairment collectively. Significant judgments are applied to the calculation of collectively assessed impairment.

(iii) Impairment of available-for-sale equity investments (IAS 39)

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data of market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance, financial information regarding the investee and industry practice.

(iv) Classification of financial assets (IFRS 9)

The critical judgments the Group has in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include evaluation and reporting of financial asset performance to key management personnel, risks affecting the performance of financial assets and their management methods, and related business management personnel. The way to get paid, etc.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group has the following main judgments: Whether the principal may be subject to change in the duration or amount of money due to prepayments during the duration; Wether interests is only included currency time value, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, Wether the amount paid in advance reflect only the outstanding principal and interest on the outstanding principal, as well as reasonable compensation for early termination of the contract.

(v) Fair value of financial instruments

For financial instruments without active market, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the end of each reporting period. However, where market data are not available, management needs to make estimates on such unobservable market inputs based on assumptions. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

5 Critical accounting estimates and judgements (Continued)

(vi) De-recognition of financial assets

In its normal course of business, the Group transfers financial assets through various types of transactions including regular way sales and transfers, securitisation, financial assets sold under repurchase agreements and etc.. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transferred financial asset to structured entities, the Group analyses whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets was transferred.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

— whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the “pass through” of those cash flows to independent third parties;

— the extent to which the associated risks and rewards of ownership of the financial assets are transferred by using appropriate models. Significant judgment is applied in the Group’s assessment with regard to the parameters and assumptions applied in the models, estimated cash flows before and after the transfers, the discount rates used based on current market interest rates, variability factors considered and the allocation of weightings in different scenarios;

— where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyses whether the Group has relinquished its controls over these financial assets, and if the Group has continuing involvement in these transferred financial assets.

(vii) Consolidation of structured entities

The Group makes significant judgment to assess whether or not to consolidate structured entities. When performing this assessment, the Group:

— assesses its contractual rights and obligations in light of the transaction structures, and evaluates the Group’s power over the structured entities;

— performs independent analyses and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; and

— assesses its ability to exercise its power to influence the variable returns assessed whether the Group acts as a principal or an agent through analysis of the scope of the Group’s decision-making authority, remuneration entitled, other interests the Group holds, and the rights held by other parties.

(viii) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management’s judgement is required to assess the probability of future taxable profits. Management’s assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

6 Net interest income

	Year ended 31 December	
	2018	2017
Interest income arising from (Note (i)):		
Deposits with central banks	**7,049**	7,633
Deposits with banks and non-bank financial institutions	**2,472**	3,040
Placements with and loans to banks and non-bank financial institutions	**8,203**	6,223
Financial assets held under resale agreements	**987**	1,068
Loans and advances to customers		
— corporate loans	**95,562**	89,053
— personal loans	**61,401**	48,279
— discounted bills	**8,645**	4,004
Financial investments		
— at amortised cost	**32,881**	—
— at fair value through other comprehensive income	**16,534**	—
Investments classified as receivables	**—**	35,438
Investments in debt securities	**—**	25,922
Others	**59**	102
Subtotal	**233,793**	220,762
Interest expense arising from:		
Borrowings from central banks	**(8,937)**	(6,151)
Deposits from banks and non-bank financial institutions	**(26,389)**	(36,896)
Placements from banks and non-bank financial institutions	**(3,389)**	(3,006)
Financial assets sold under repurchase agreements	**(1,623)**	(2,691)
Deposits from customers	**(66,254)**	(53,190)
Debt securities issued	**(22,416)**	(19,171)
Others	**(13)**	(12)
Subtotal	**(129,021)**	(121,117)
Net interest income	**104,772**	99,645

Note:

(i) Interest income from impaired financial assets is RMB375 million for the year ended 31 December 2018 (2017: RMB643 million).

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

7 Net fee and commission income

	Year ended 31 December	
	2018	2017
Fee and commission income:		
Bank card fees	**32,656**	30,453
Guarantee and advisory fees	**5,613**	6,358
Agency fees and commission (Note (i))	**4,839**	4,534
Commission for custodian business and other fiduciary	**6,044**	8,737
Settlement and clearance fees	**1,269**	1,215
Others	**318**	390
Total	**50,739**	51,687
Fee and commission expense	**(5,591)**	(4,829)
Net fee and commission income	**45,148**	46,858

Note:

(i) Agency fees and commission represent fees earned for sale of bonds, investment funds and insurance products, and provision of entrusted lending activities.

8 Net trading gain

	Year ended 31 December	
	2018	2017
Debt securities and certificates of interbank deposit	**3,897**	2,187
Foreign currencies	**1,983**	1,664
Derivatives and related exposures	**552**	2,131
Financial instrument designated at fair value through profit or loss	**87**	601
Total	**6,519**	6,583

9 Net gain from investment securities

	Year ended 31 December	
	2018	2017
Financial investments		
— at fair value through profit or loss	**7,745**	—
— at amortised cost	**(1,416)**	—
— at fair value through other comprehensive income	**(494)**	—
Revaluation loss on transfer out of equity at disposal	**(262)**	—
Net gain from sale of available-for-sale securities	**—**	1,221
Net gain from bills rediscounting	**134**	(5)
Net gain from securitisation of financial assets	**3,181**	2,622
Others	**158**	(81)
Total	**9,046**	3,757

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(Amounts in millions of Renminbi unless otherwise stated)

10 Net hedging (loss)/gain

	Year ended 31 December	
	2018	2017
Net (loss)/gain of fair value hedge	**(1)**	1

11 Operating expenses

	Year ended 31 December	
	2018	2017
Staff costs		
— salaries and bonuses	**22,196**	20,280
— welfare expenses	**1,400**	1,121
— social insurance	**1,469**	1,324
— housing fund	**1,300**	1,291
— labour union expenses and employee education expenses	**416**	378
— housing allowance	**196**	497
— other short-term benefits	**61**	48
— post-employment benefits – defined contribution plans	**2,453**	2,377
— post-employment benefits – defined benefit plans	**102**	11
— other long-term benefits	**6**	89
Subtotal	**29,599**	27,416
Property and equipment expenses		
— rent and property management expenses	**4,972**	4,899
— depreciation	**1,830**	1,818
— amortisation expenses	**1,112**	993
— electronic equipment operating expenses	**458**	524
— maintenance	**485**	498
— others	**398**	372
Subtotal	**9,255**	9,104
Tax and surcharges	**1,699**	1,660
Other general operating and administrative expenses (Note (i))	**12,047**	10,733
Total	**52,600**	48,913

Note:

(i) Included in other general operating and administrative expenses were audit fees of RMB20 million for the year ended 31 December 2018 (2017: RMB18 million) and non-audit fees of RMB21 million for the year ended 31 December 2018 (2017: RMB12 million).

(Amounts in millions of Renminbi unless otherwise stated)

11 Operating expenses (Continued)

(a) Individuals with highest emoluments

For the year ended 31 December 2018, of the 5 individuals with the highest emoluments in the Group, there was no director (2017: Nil) and no supervisor (2017: Nil). The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals of the Group were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**20,089**	21,235
Discretionary bonuses	**18,452**	19,789
Contribution to pension scheme	**1,438**	1,418
Total	**39,979**	42,442

The emoluments before individual income tax of the five individuals of the Group with the highest emoluments are within the following bands:

	Year ended 31 December	
	2018	2017
RMB5,000,001 – RMB10,000,000	**3**	4
RMB10,000,001 – RMB15,000,000	**2**	1

No inducement fee and compensation for loss of office was paid to the five highest paid individuals for the year ended 31 December 2018 (2017: Nil).

12 Impairment losses on assets

	31 December 2017
Loans and advances to customers	50,170
Deposits with banks and non-bank financial institutions	(32)
Interest receivables	4,212
Available-for-sale financial assets	(69)
Held-to-maturity investments	(2)
Investments classified as receivables	1,018
Repossessed assets	272
Off-balance sheet items	(77)
Others	295
Subtotal	5,617
Total	55,787

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

13 Credit impairment losses

	31 December 2018
Deposits with banks and non-bank financial institutions	**11**
Placements with and loans to banks and non-bank financial institutions	**(1)**
Financial assets held under resale agreements	**(33)**
Interest receivables	**3,034**
Loans and advances to customers	**47,753**
Financial investments	
— at amotised cost	**999**
— at fair value through other comprehensive income	**75**
Other assets-financial assets	**6,098**
Off-balance sheet items	**(50)**
Total	**57,886**

14 Impairment losses on other assets

	31 December 2018
Other assets-repossessed assets	**347**

15 Income tax

(a) Recognised in the consolidated statement of profit or loss and other comprehensive income

	Note	Year ended 31 December 2018	2017
Current tax			
— Mainland China		**12,680**	15,249
— Hong Kong		**561**	487
— Overseas		**46**	104
Deferred tax	35(c)	**(4,337)**	(6,442)
Total		**8,950**	9,398

Mainland China and Hong Kong income tax have been provided at the rate of 25% and 16.5% respectively. Overseas tax has been provided at the rates of taxation prevailing in the regions in which the Group operates respectively.

(b) Reconciliation between income tax expense and accounting profit

	Year ended 31 December 2018	2017
Profit before tax	**54,326**	52,276
Income tax calculated at PRC statutory tax rate	**13,581**	13,069
Effect of different tax rates in other regions	**(286)**	(325)
Tax effect of non-deductible expenses	**274**	259
Tax effect of non-taxable income		
— interest income arising from PRC government bonds and local government bonds	**(3,353)**	(3,097)
— the dividends of funds	**(1,209)**	(301)
— others	**(57)**	(207)
Total	**8,950**	9,398

(Amounts in millions of Renminbi unless otherwise stated)

16 Other comprehensive income, net of tax

	Year ended 31 December	
	2018	2017
Items that will not be reclassified subsequently to profit or loss		
Changes on the measurement of defined benefit plans, net of tax		
— net changes recognised during the year before tax	**9**	(11)
— income tax	**(2)**	3
Fair value changes on financial asset designated at fair value through other comprehensive income, net of tax		
— net changes in fair value recognised during the year before tax	**15**	—
— income tax	**(4)**	—
Transfer from owner-occupied property to investment property		
— net changes during the year before tax	**65**	—
Subtotal	**83**	(8)
Items that may be reclassified subsequently to profit or loss		
Other comprehensive income transferable to profit or loss under equity method		
— net changes during the year	**(10)**	—
Other comprehensive income of available-for-sale financial assets		
— net changes in fair value recognised during the year	**—**	(10,877)
— net amount transferred to profit or loss	**—**	149
— income tax	**—**	2,686
Fair value changes on financial assets at fair value through other comprehensive income, net of tax (Note (i))		
— net changes during the year before tax	**13,300**	—
— net amount transferred to profit or loss	**149**	—
— Income tax	**(3,409)**	—
Credit impairment allowance on financial assets at fair value through other comprehensive income (Note (ii))		
— net changes during the year	**173**	—
— Income tax	**(33)**	—
Exchange differences on translation	**2,209**	(2,583)
Share of other comprehensive income of associates and joint ventures	**—**	(9)
Subtotal	**12,379**	(10,634)
Other comprehensive income, net of tax	**12,462**	(10,642)

Note:

(i) Fair value changes on financial assets at fair value through other comprehensive income include those of financial investments and loans and advances to customers at fair value through other comprehensive income (Note 25(a)).

(ii) Credit impairment allowance include financial investments and loans and advances to customers at fair value through other comprehensive income (Note 25(a)).

(Amounts in millions of Renminbi unless otherwise stated)

17 Earnings per share

Earnings per share information for the year ended 31 December 2018 and 2017 is computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of shares in issue during the year.

The Bank issued non-cumulative preference shares during the year ended 31 December 2016, under the terms and conditions as detailed in Note 49. The Bank declared and paid cash dividends of RMB1,330 million of non-cumulative preference shares for the year of 2018 (2017: 1,330 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	Year ended 31 December	
	2018	2017
Profit for the year attributable to equity holders of the Bank	**44,513**	42,566
Less: dividend attributable to preference shareholders of the Bank	**1,330**	1,330
Profit for the year attributable to ordinary shareholders of the Bank	**43,183**	41,236
Weighted average number of shares (in million shares)	**48,935**	48,935
Basic and diluted earnings per share (in RMB)	**0.88**	0.84

18 Cash and balances with central banks

	Notes	**31 December 2018**	31 December 2017
Cash		**6,188**	6,740
Balances with central banks			
— statutory deposit reserve funds	(i)	**399,797**	462,743
— surplus deposit reserve funds	(ii)	**128,424**	89,288
— fiscal deposits	(iii)	**2,816**	4,083
— foreign exchange reserve	(iv)	**1,288**	5,446
Accrued interest		**195**	—
Total		**538,708**	568,300

Notes:

(i) The Group places statutory deposit reserve funds with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserve funds are not available for use in the Group's daily business.

As at 31 December 2018, the statutory deposit reserve funds placed with the PBOC was calculated at 12% (as at 31 December 2017: 15%) of eligible Renminbi deposits for domestic branches of the Bank and at 12% (as at 31 December 2017: 15%) of eligible Renminbi deposits from overseas financial institutions. The Bank was also required to deposit an amount equivalent to 5% (as at 31 December 2017: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve funds.

As at 31 December 2018, the statutory RMB deposit reserve rates applicable to Zhejiang Lin'an CITIC Rural Bank Corporation Limited in mainland China, a subsidiary of the Group, was at 9% (as at 31 December 2017: 9%).

The amounts of statutory deposit reserve funds placed with the central banks of overseas countries are determined by respective jurisdictions. The statutory deposit reserve funds are interest bearing except for the foreign currency reserve funds deposits placed with the PBOC.

(ii) The surplus deposit reserve funds are maintained with the PBOC for the purposes of clearing.

(iii) Fiscal deposits placed with the PBOC are not available for use in the Group's daily operations, and are non-interest bearing.

(iv) The foreign exchange reserve is maintained with the PBOC in accordance with the related notice issued by the PBOC on 31 August 2015. The reserve is payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign exchange reserve is non-interest bearing and will be repayable in 12 months according to the Notice. In accordance with the relevant notice issued by the PBOC on 8 September 2017, the Group adjusted the foreign exchange risk reserve ratio required to domestic financial institutions for forward foreign exchange business to 0% from 11 September 2017. The Group's remaining foreign exchange risk reserves will be gradually released after the expiration of the long-term sale of foreign exchange on behalf of clients.

(Amounts in millions of Renminbi unless otherwise stated)

19 Deposits with banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	**31 December 2018**	31 December 2017
In Mainland China			
— banks		**44,318**	73,832
— non-bank financial institutions		**21,028**	17,557
Subtotal		**65,346**	91,389
Outside Mainland China			
— banks		**31,984**	26,187
— non-bank financial institutions		**1,783**	6,774
Subtotal		**33,767**	32,961
Accrued interest		**114**	—
Gross balance		**99,227**	124,350
Less: Allowances for impairment losses	37	**(74)**	—
Net balance		**99,153**	124,350

(b) Analysed by remaining maturity

	Note	**31 December 2018**	31 December 2017
Demand deposits (Note (i))		**65,023**	67,370
Time deposits with remaining maturity			
— within one month		**22,256**	45,629
— between one month and one year		**11,834**	11,351
Subtotal		**34,090**	56,980
Accrued interest		**114**	—
Gross balance		**99,227**	124,350
Less: Allowances for impairment losses	37	**(74)**	—
Net balance		**99,153**	124,350

Note:

(i) As at 31 December 2018, the carrying amount of pledged deposits with banks and other financial institutions was RMB1,343 million (as at 31 December 2017: RMB1,676 million). These deposits were mainly maintenance margin with a regulatory body.

(Amounts in millions of Renminbi unless otherwise stated)

20 Placements with and loans to banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	**31 December 2018**	31 December 2017
In Mainland China			
— banks		**13,680**	15,320
— non-bank financial institutions		**113,351**	119,065
Subtotal		**127,031**	134,385
Outside Mainland China			
— banks		**48,421**	37,685
— non-bank financial institutions		**—**	—
Subtotal		**48,421**	37,685
Accrued interest		**873**	—
Gross balance		**176,325**	172,070
Less: Allowances for impairment losses	37	**(165)**	(1)
Net balance		**176,160**	172,069

(b) Analysed by remaining maturity

	Note	**31 December 2018**	31 December 2017
Within one month		**112,284**	66,564
Between one month and one year		**63,168**	105,506
Accrued interest		**873**	—
Gross balance		**176,325**	172,070
Less: Allowances for impairment losses	37	**(165)**	(1)
Net balance		**176,160**	172,069

21 Financial assets at fair value through profit or loss

	Notes	31 December 2017
Held for trading financial assets		
— debt securities	(a)	38,728
— certificates of interbank deposit	(b)	19,400
— investment funds		2,001
Subtotal		60,129
Financial assets designated at fair value through profit or loss	(c)	5,775
Total		65,904

(Amounts in millions of Renminbi unless otherwise stated)

21 Financial assets at fair value through profit or loss (Continued)

(a) Held for trading – debt securities

	31 December 2017
Issued by	
In Mainland China	
— governments	705
— policy banks	4,039
— banks and non-bank financial institutions	2,722
— corporates	30,098
Subtotal	37,564
Outside Mainland China	
— banks and non-bank financial institutions	1,063
— corporates	101
Subtotal	1,164
Total	38,728
Listed in Hong Kong	668
Listed outside Hong Kong	36,788
Unlisted	1,272
Total	38,728

(b) Held for trading – certificates of interbank deposit

	31 December 2017
Issued by	
Banks in Mainland China	19,400
Listed outside Hong Kong	19,400

(c) Financial assets designated at fair value through profit or loss

	31 December 2017
Issued by	
In Mainland China	
— banks	606
— policy banks	53
— corporates	2,523
Subtotal	3,182
Outside Mainland China	
— banks	2,593
Total	5,775
Listed outside Hong Kong	659
Unlisted	5,116
Total	5,775

Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

(Amounts in millions of Renminbi unless otherwise stated)

22 Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in foreign exchange, precious metals, interest rate and credit derivatives related to trading, asset and liability management and customer initiated transactions. The Group, through the operations of its branch network, acts as an intermediary for a wide range of customers for structuring deals to offer risk management solutions to match individual customer needs. These positions are actively managed through hedging transactions with external parties to ensure the Group's net exposures are within acceptable risk levels. The Group also uses these derivatives for proprietary trading purposes and to manage its own asset and liability and structural positions. Derivatives, except for those which are designated as hedging instruments (Note 22(c)), are held for trading. Derivatives classified as held for trading are for trading and customer initiated transactions purpose, and those for risk management purposes but do not meet the criteria for hedge accounting.

The contractual/notional amounts of derivatives provide a basis for comparison with fair values of derivatives recognised on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the derivatives and, therefore, do not indicate the Group's exposure to credit or market risks.

	31 December 2018			31 December 2017		
	Nominal amount	**Assets**	**Liabilities**	Nominal amount	Assets	Liabilities
Hedging instruments (Note 22(c))						
— interest rate derivatives	**8,385**	**96**	**8**	9,799	123	18
Non-Hedging instruments						
— interest rate derivatives	**1,837,247**	**6,010**	**5,966**	1,632,189	2,430	2,294
— currency derivatives	**2,595,674**	**24,826**	**24,501**	3,347,855	62,030	62,368
— precious metal derivatives	**58,644**	**1,048**	**1,170**	51,586	868	257
— credit derivatives	**820**	**11**	**1**	—	—	—
Total	**4,500,770**	**31,991**	**31,646**	5,041,429	65,451	64,937

(a) Nominal amount analysed by remaining maturity

	31 December 2018	31 December 2017
Within three months	**1,921,744**	1,868,273
Between three months and one year	**2,033,875**	2,751,469
Between one year and five years	**542,276**	418,881
Over five years	**2,875**	2,806
Total	**4,500,770**	5,041,429

(b) Credit risk weighted amounts

The credit risk weighted amount has been computed in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) promulgated by the CBIRC in the year of 2012, and depends on the status of the counterparties and the maturity characteristics of the instruments, including those customer-driven back-to-back transactions. As at 31 December 2018, the total amount of credit risk weighted amount for counterparty was RMB20,158 million (as at 31 December 2017: RMB70,217 million).

(c) Fair value hedge

A subsidiary of the Group utilises fair value hedge to eliminate the effect of fair value changes of financial assets and financial liabilities caused by market interest rate fluctuations. Interest rate swap contracts are used for hedging interest risks arising from debt securities at fair value through other comprehensive income, available-for-sale debt securities, certificates of deposit and subordinated bonds issued.

(Amounts in millions of Renminbi unless otherwise stated)

23 Financial assets held under resale agreements

(a) Analysed by types and locations of counterparties

	Note	**31 December 2018**	31 December 2017
In Mainland China			
— banks		**3,402**	28,417
— non-bank financial institutions		**6,428**	26,209
Subtotal		**9,830**	54,626
Outside Mainland China			
— banks		**958**	—
Accrued interest		**6**	—
Gross balance		**10,794**	54,626
Less: Allowance for impairment losses	37	**(4)**	—
Net balance		**10,790**	54,626

(b) Analysed by types of collateral

As at 31 December 2018 and 31 December 2017, the collateral type of financial asset under resale agreements of the Group are all debt instruments. The collateral received by the Group in resale transactions are disclosed in Note 58 Collateral.

(c) Analysed by remaining maturity

As at 31 December 2018 and 31 December 2017, the financial assets held under resale agreements of the Group all mature within one month.

24 Interest receivables

	Note	31 December 2017
Loans and advances to customers		13,543
Debt securities		11,138
Investments classified as receivables		9,508
Others		2,400
Gross balance		36,589
Less: Allowance for impairment losses	37	(3,946)
Net balance		32,643

The accrued interests or interest receivables of 2018 derived from respective financial assets are disclosed in Note 18, Note 19, Note 20, Note 23, Note 25 and Note 26 to conform the presentation in current year.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers

(a) Analysed by nature

	Notes	31 December 2018
Loans and advances to customers at amortised cost		
Corporate loans and advances		
— loans		**1,833,171**
— discounted bills		**146,414**
— finance lease receivables		**47,817**
Subtotal		**2,027,402**
Personal loans and advances		
— residential mortgages		**643,407**
— credit cards		**442,493**
— personal consumption		**203,853**
— business loans		**194,737**
Subtotal		**1,484,490**
Accrued interest		**8,338**
Gross balance		**3,520,230**
Less: Allowances impairment losses	37	**(101,100)**
Loans and advances to customers at amortised cost, net		**3,419,130**
Loans and advances to customers at fair value through other comprehensive income		
— loans		**137**
— discounted bills		**96,383**
Carrying amount of loans and advances at fair value through other comprehensive income		**96,520**
— fair value changes through comprehensive income		**21**
Total		**3,515,650**
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	37	**(132)**

	Note	31 December 2017
Corporate loans		
— loans		1,812,589
— discounted bills		107,456
— finance lease receivables		45,258
Subtotal		1,965,303
Personal loans		
— residential mortgages		505,305
— credit cards		333,719
— personal consumption		226,545
— business loans		166,015
Subtotal		1,231,584
Gross balance		3,196,887
Less: Allowances for impairment losses	37	
— individually assessed		(28,930)
— collectively assessed		(61,973)
Subtotal		(90,903)
Net balance		3,105,984

(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers (Continued)

(b) Analysed by assessment method of allowance for impairment losses

	31 December 2018				
	Stage one	**Stage two**	**Stage three (Note (i))**	**Total**	**Stage three loans and advances as a % of gross total loans and advances**
Gross loans and advances to customers at amortised costs	**3,353,529**	**92,949**	**65,414**	**3,511,892**	**1.81%**
Accrued interest	**7,592**	**727**	**19**	**8,338**	
Less: Allowance for impairment losses	**(31,940)**	**(22,788)**	**(46,372)**	**(101,100)**	
Carrying amount of loans and advances to customers measured at Amortised cost	**3,329,181**	**70,888**	**19,061**	**3,419,130**	
Carrying amount of loans and advances to customers at fair value through other comprehensive income	**96,520**	**—**	**—**	**96,520**	
Total	**3,425,701**	**70,888**	**19,061**	**3,515,650**	
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	**(132)**	**—**	**—**	**(132)**	

	31 December 2017				
		Identified impaired loans and advances			
	Loans and advances for which allowance is collectively assessed	for which allowance is collectively assessed	for which allowance is individually assessed (Note (ii))	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross balance	3,143,239	11,393	42,255	3,196,887	1.68%
Less: Allowance for impairment losses	(52,997)	(8,976)	(28,930)	(90,903)	
Net balance	3,090,242	2,417	13,325	3,105,984	

(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers (Continued)

(b) Analysed by assessment method of allowance for impairment losses (Continued)

Notes:

(i) Stage 3 loans are loans and advances to customers that have incurred credit impairment.

	31 December 2018
Secured portion	**37,648**
Unsecured portion	**27,766**
Gross balance	**65,414**
Allowance for impairment losses	**(46,372)**
Net balance	**19,042**

As at 31 December 2018, the maximum exposure covered by pledge and collateral held of secured portion is RMB35,221 million.

(ii) Individually assessed identified impaired loans

	31 December 2017
Secured portion	24,360
Unsecured portion	17,895
Gross balance	42,255
Individual allowance for impairment losses	(28,930)
Net balance	13,325

As at 31 December 2017, the maximum exposure covered by pledge and collateral held of secured portion is RMB22,199 million.

The fair value of collateral was estimated by management based on the latest revaluation including available external valuation, if any, adjusted by taking into account the current realisation experience as well as market situation.

(Amounts in millions of Renminbi unless otherwise stated)

25 Loans and advances to customers (Continued)

(c) Overdue loans analysed by overdue period

	31 December 2018				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**9,221**	**9,602**	**1,977**	**493**	**21,293**
Guaranteed loans	**9,284**	**8,292**	**6,639**	**627**	**24,842**
Loans with pledged assets					
— loans secured by collateral	**16,428**	**13,339**	**12,008**	**2,367**	**44,142**
— pledged loans	**2,457**	**1,959**	**1,752**	**114**	**6,282**
Total	**37,390**	**33,192**	**22,376**	**3,601**	**96,559**

	31 December 2017				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	6,739	7,624	767	424	15,554
Guaranteed loans	8,543	9,741	8,814	1,466	28,564
Loans with pledged assets					
— loans secured by collateral	14,168	13,614	11,886	363	40,031
— pledged loans	3,392	2,201	1,620	162	7,375
Total	32,842	33,180	23,087	2,415	91,524

Overdue loans represent loans of which the principal or interest are overdue one day or more.

(d) Finance lease receivables

Finance lease receivables transactions are attributable to the Group's subsidiaries, CITIC Financial Leasing Limited ("CFLL") and CITIC International Finance Holdings Limited ("CIFH"), include net investment in machines and equipment leased to customers under finance lease and hire purchase contracts which have the characteristics of finance leases. These contracts usually run for an initial period from 1 to 25 years. The total minimum finance lease receivables under finance lease and hire purchase contracts and their present values are as follows:

	31 December 2018		31 December 2017	
	Present value of minimum finance leases receivables	**Minimum finance leases receivables**	Present value of minimum finance leases receivables	Minimum finance leases receivables
Within one year (including one year)	**11,826**	**14,182**	6,920	9,952
One year to two years (including two years)	**9,866**	**11,626**	10,233	11,371
Two years to three years (including three years)	**7,863**	**9,140**	8,365	9,066
Over three years	**18,262**	**20,606**	19,740	22,501
Gross balance	**47,817**	**55,554**	45,258	52,890
Allowance for expected credit losses				
— stage one	**(1,001)**		—	
— stage two	**(429)**		—	
— stage three	**(100)**		—	
— individually assessed	—		(1)	
— collectively assessed	—		(1,003)	
Net balance	**46,287**		44,254	

(Amounts in millions of Renminbi unless otherwise stated)

26 Financial investments

(a) Analysed by types

	Note	31 December 2018
Financial assets at fair value through profit or loss		
Investment funds		**189,176**
Debt securities		**71,920**
— designated at fair value through profit or loss		**52**
Trust investment plans (Note (i))		**26,486**
Certificates of deposit		**16,713**
Wealth management products		**116**
Equity instruments		**4,461**
Net balance		**308,872**
Financial assets at amortised cost		
Debt securities		**381,688**
Investment management products managed by securities companies (Note (i))		**228,502**
Trust investment plans (Note (i))		**151,582**
Certificates of deposit		**11,406**
Subtotal		**773,178**
Accrued interest		**8,430**
Less: Allowance for impairment losses	37	**(3,370)**
Net balance		**778,238**
Financial assets at fair value through other comprehensive income (Note (ii))		
Debt securities		**491,015**
Certificates of deposit		**12,644**
Subtotal		**503,659**
Accrued interest		**6,687**
Net balance		**510,346**
Allowances for impairment losses on financial investments at fair value through other comprehensive income	37	**(1,039)**
Financial assets designated at fair value through other comprehensive income (Note (ii))		**2,707**
Total		**1,600,163**

(i) As of 31 December 2018, RMB99,095 million (31 December 2017: RMB91,976 million) of Trust investment plans and Investment management products managed by securities companies listed above were managed by the subsidiaries and related companies of CITIC Corporation Limited, the Bank's immediate parent company.

The underlying assets of Trust investment plans and Investment management products managed by securities companies primarily include credit assets, interbank assets and rediscounted bills (Note 61(a)(viii)).

(ii) ***Financial investments at fair value through other comprehensive income***

	Note	31 December 2018 Equity instruments	Debt security instruments	Total
Costs/Amortised cost		**2,630**	**498,130**	**500,760**
Fair value change on accumulated into other comprehensive income		**77**	**5,529**	**5,606**
Fair value		**2,707**	**503,659**	**506,366**
Allowance for impairment losses	37		**(1,039)**	**(1,039)**

(Amounts in millions of Renminbi unless otherwise stated)

26 Financial investments (Continued)

(b) Analysed by location of counterparties

	Note	31 December 2018
In Mainland China		
— governments		**475,246**
— policy banks		**122,411**
— banks and non-bank financial institutions		**400,793**
— corporates		**126,144**
Subtotal		**1,124,594**
Outside Mainland China		
— governments		**16,121**
— banks and non-bank financial institutions		**433,910**
— public entities		**2,084**
— corporates		**11,707**
Subtotal		**463,822**
Accrued interest		**15,117**
Total		**1,603,533**
Less: Impairment allowance for financial assets at amotised cost	37	**(3,370)**
Net balance		**1,600,163**
Listed in Hong Kong		**39,541**
Listed outside Hong Kong		**1,104,876**
Unlisted		**455,746**
Total		**1,600,163**

Bonds traded in China's inter-bank bond market are listed outside Hong Kong.

(c) Analysed by assessment method of allowance for impairment losses

	Notes	31 December 2018			
		Stage one	**Stage two**	**Stage three**	**Total**
Financial assets at amortised costs		**768,136**	**3,882**	**1,160**	**773,178**
Accrued interest		**8,422**	**8**	**—**	**8,430**
Less: Allowance for impairment losses	37	**(2,680)**	**(152)**	**(538)**	**(3,370)**
Net Balance		**773,878**	**3,738**	**622**	**778,238**
Financial assets at fair value through other comprehensive income		**503,334**	**104**	**221**	**503,659**
Accrued interest		**6,686**	**1**	**—**	**6,687**
Net Balance		**510,020**	**105**	**221**	**510,346**
Total carrying amount of financial assets affected by credit risk		**1,283,898**	**3,843**	**843**	**1,288,584**
Allowance for impairment losses of other debt instruments included in other comprehensive income		**(727)**	**(2)**	**(310)**	**(1,039)**

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27 Available-for-sale financial assets

	Notes	31 December 2017
Debt securities	(a)	469,843
Certificates of deposit	(b)	40,947
Equity investments		1,356
— measured at fair value	(c)	744
— measured at cost	(c)	612
Investment funds	(d)	119,518
Wealth management products		26
Total		631,690

(a) Debt securities analysed by location of counterparties

	31 December 2017
In Mainland China	
— governments	245,368
— policy banks	72,171
— banks and non-bank financial institutions	31,985
— corporates	78,084
Subtotal	427,608
Outside Mainland China	
— governments	13,635
— banks and non-bank financial institutions	18,535
— public entities	1,151
— corporates	8,914
Subtotal	42,235
Total	469,843
Listed in Hong Kong	23,590
Listed outside Hong Kong	429,769
Unlisted	16,484
Total	469,843

(b) Certificates of deposit analysed by location of counterparties

	31 December 2017
In Mainland China	
— banks	38,391
— policy banks	1,436
Outside Mainland China	
— banks	1,120
Total	40,947
Listed outside Hong Kong	40,947

(Amounts in millions of Renminbi unless otherwise stated)

27 Available-for-sale financial assets (Continued)

(c) Equity investments analysed by location of counterparties

	31 December 2017
In Mainland China	
— corporates	927
Outside Mainland China	
— banks and non-bank financial institutions	145
— corporates	284
Total	1,356
Listed in Hong Kong	284
Listed outside Hong Kong	70
Unlisted	1,002
Total	1,356

(d) Investment funds analysed by location of counterparties

	31 December 2017
In Mainland China	
— banks and non-bank financial institutions	118,925
Outside Mainland China	
— banks and non-bank financial institutions	263
— corporates	330
Total	119,518
Listed outside Hong Kong	118,925
Unlisted	593
Total	119,518

Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

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28 Held-to-maturity investments

Debt securities analysed by location of counterparties

	Note	31 December 2017
In Mainland China		
— governments		55,105
— policy banks		54,246
— banks and non-bank financial institutions		88,774
— corporates		18,133
Subtotal		216,258
Outside Mainland China		
— banks and non-bank financial institutions		325
— public entities		3
Subtotal		328
Gross balance		216,586
Less: Allowance for impairment losses	37	—
Total		216,586
Listed in Hong Kong		273
Listed outside Hong Kong		209,985
Unlisted		6,328
Total		216,586
Fair value		212,530
Of which: listed securities		206,202

Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

29 Investments classified as receivables

	Note	31 December 2017
Investment management products managed by securities companies		268,247
Wealth management products		139,020
Trust investment plans		126,794
Gross balance		534,061
Less: Allowance for impairment losses	37	(2,943)
Net balance		531,118

The underlying assets of investments classified as receivables primarily include interbank assets and wealth management products issued by other banks, credit assets and rediscounted bills (Note 61 (a)(viii)).

30 Investments in associates and joint ventures

	Note	**31 December 2018**	31 December 2017
Investments in joint ventures	(a)	**2,759**	1,196
Investments in associates	(b)	**1,122**	1,145
Total		**3,881**	2,341

(Amounts in millions of Renminbi unless otherwise stated)

30 Investments in associates and joint ventures (Continued)

(a) Investment in joint ventures

The details of the joint ventures as at 31 December 2018 were as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares	Principal activities	Nominal value of issued shares
CITIC aiBank Corporation Limited ("CITIC Baixin") (Note (i))	Corporation	Mainland China	70.0%	Financial services	RMB4.0 billion
JSC Altyn Bank (Note (ii))	Corporation	Kazakhstan	50.1%	Financial services	KZT7.05 billion

Notes:

(i) CITIC Baixin opened on 18 November 2017 with initial capital of RMB2 billion. According to the Articles of Association, the Bank and Fujian BoRui Network Technology Co.,Ltd. ("Fujian BoRui") shall jointly approve major decisions before further development. Approved by the CBIRC, capital increase of CITIC Baixin was completed in 2018, which the Bank contributed RMB1.4 billion for subscription of 1.4 billion shares, and Fujian BoRui contributed RMB0.6 billion for subscription of 0.6 billion shares. After capital increase, their proportion of shareholding remains the same.

(ii) The bank completed 50.1% share acquisition of JSC Altyn Bank in 2018. According to the Articles of Association, the Bank and the other shareholder, the National Bank of Kazakhstan, shall jointly approve major decisions before further development.

Financial statements of the joint ventures are as follow:

	As at or for the year ended 2018				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total net assets**	**Operating income**	**Net gain/(loss)**
CITIC Baixin	**35,924**	**32,701**	**3,223**	**1,295**	**(484)**
JSC Altyn Bank	**7,928**	**7,191**	**734**	**349**	**195**

	As at or for the year ended 2017				
Name of Enterprise	Total assets	Total liabilities	Total net assets	Operating income	Net loss
CITIC Baixin	9,970	8,262	1,708	30	(291)

Movement of the Group's interests in the joint venture:

	Year ended 31 December 2018	Year ended 31 December 2017
Initial investment cost	**3,229**	1,400
As at 1 January	**1,196**	—
Additions	**1,829**	1,400
Share of net loss of the joint ventures for the year	**(274)**	(204)
Exchange difference	**8**	—
As at 31 December	**2,759**	1,196

(Amounts in millions of Renminbi unless otherwise stated)

30 Investments in associates and joint ventures (Continued)

(b) Investment in associates

The Group holds its investment in associates through subsidaries and details of the associates as at 31 December 2018 was as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares and voting right held by the Group	Principal activities	Nominal value of issued shares
CITIC International Assets Management Limited ("CIAM")	Corporation	Hong Kong	46%	Investment holding and assets management	HKD2,218 million
ZhongAn Financial Services Limited ("ZAFS")	Corporation	Hong Kong	26.25%	Investment holding	HKD1,000 million
Binhai (Tianjin) Financial Assets Exchange Company Limited ("BFAE")	Corporation	Mainland China	20%	Services and investment	RMB500 million

Financial statements of the associates are as follow:

	As at or for the year ended 2018				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total netassets**	**Operating income**	**Net profit/(loss)**
CIAM	**1,631**	**149**	**1,482**	**(718)**	**(768)**
ZAFS	**884**	**—**	**884**	**5**	**5**
BFAE	**499**	**47**	**452**	**3**	**(30)**

	As at or for the year ended 2017				
Name of Enterprise	Total assets	Total liabilities	Total netassets	Operating income	Netloss
CIAM	2,412	236	2,176	181	(251)
BFAE	581	98	483	1	(14)

Movement of the Group's interests in associates:

	Year ended 31 December 2018	Year ended 31 December 2017
Initial investment cost	**1,489**	1,183
As at 1 January	**1,145**	1,111
Additions	**306**	190
Share of net loss of associates for the year	**(368)**	(81)
Share of other comprehensive income of associates for the year	**(10)**	8
Dividend received	**—**	(11)
Exchange difference	**49**	(72)
As at 31 December	**1,122**	1,145

(Amounts in millions of Renminbi unless otherwise stated)

31 Investment in subsidiaries

	Notes	**31 December 2018**	31 December 2017
Investment in subsidiaries			
— CIFH	(i)	**16,570**	16,570
— CNCB (Hong Kong) Investment Limited (“CNCB Investment”)	(ii)	**1,577**	1,577
— Zhejiang Lin’an CITIC Rural Bank Corporation Limited (“Lin’an Rural Bank”)	(iii)	**102**	102
— CFLL	(iv)	**4,000**	4,000
Total		**22,249**	22,249

Major subsidiaries of the Bank as at 31 December 2018 are as follows:

Name of entity	**Place of incorporation**	**Particulars of the issued and paid up capital**	**Principal activities**	**% of ownership directly held by the Bank**	**% of ownership held by subsidiaries of the Bank**	**The Group’s effective interest**
CIFH (Note (i))	Hong Kong	HKD7,503 million	Commercial banking and other financial services	100%	—	100%
CNCB Investment (Note (ii))	Hong Kong	HKD1,889 million	Lending services	99.05%	0.71%	99.76%
Lin’an Rural Bank (Note (iii))	Mainland China	RMB200 million	Commercial banking	51%	—	51%
CFLL (Note (iv))	Mainland China	RMB4,000 million	Financial lease operations	100%	—	100%

Notes:

(i) CIFH is an investment holding company registered and headquartered in Hong Kong. Its business scope through its subsidiaries covers commercial banking and other financial services. The Bank holds 100% shareholding in CIFH. CIFH holds 75% shareholding in CITIC Bank International Limited (“CBI”).

(ii) CNCB Investment was founded in Hong Kong in 1984. Holding a money lending licence issued by the Hong Kong Company Registry, CNCB Investment’s business scope includes capital market investment, lending and other related services. The Bank holds 99.05% shareholding in CNCB Investment, and CIFH holds the remaining 0.71% shareholding in CNCB Investment. The Bank effectively held 99.76% shareholding in CNCB Investment.

(iii) Lin’an Rural Bank was founded in Zhejiang Province of Mainland China in 2011 with a registered capital of RMB200 million. Its principal activities are commercial banking related businesses. The Bank holds 51% of Lin’an Rural Bank’s shares and voting rights.

(iv) The Bank established CFLL in 2015 with a registered capital of RMB4 billion. Its principal business activities are financial leasing. The Bank holds 100% of its shares and voting rights.

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32 Investment properties

	31 December 2018	31 December 2017
Fair value as at 1 January	**295**	305
Change in fair value	**35**	30
Transfers in/(out)	**93**	(18)
Exchange difference	**20**	(22)
Fair value as at 31 December	**443**	295

Investment properties of the Group are buildings held by subsidiaries and mainly located in Hong Kong and leased to third parties through operating leases. There are active real estate markets where the investment properties are located and the Group is able to obtain market price and related information of similar properties, and therefore makes estimation about the fair value of the investment properties as at 31 December 2018.

All investment properties of the Group were revalued at 31 December 2018 by an independent firm of surveyors, Prudential Surveyors (Hong Kong) Limited, on an open market value basis. The fair value is in line with the definition of "IFRS13 – Fair value measurement". The revaluation surplus has been recognised in the profit or loss for the current year. Prudential Surveyors (Hong Kong) Limited has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

The investment properties of the Group are categorised into Level 3.

33 Property, plant and equipment

	Buildings	**Construction in progress**	**Computer equipment and others**	**Total**
Cost or deemed cost:				
As at 1 January 2018	**21,313**	**1,078**	**11,018**	**33,409**
Additions	**1,157**	**210**	**1,466**	**2,833**
Disposals	**(514)**	—	**(663)**	**(1,177)**
Transfer out	**(102)**	—	**(1,041)**	**(1,143)**
Exchange differences	**31**	—	**59**	**90**
As at 31 December 2018	**21,885**	**1,288**	**10,839**	**34,012**
Accumulated depreciation:				
As at 1 January 2018	**(4,497)**	—	**(7,582)**	**(12,079)**
Depreciation charges	**(674)**	—	**(1,156)**	**(1,830)**
Transfer out	**9**	—	**492**	**501**
Disposals	**229**	—	**610**	**839**
Exchange differences	**(16)**	—	**(42)**	**(58)**
As at 31 December 2018	**(4,949)**	—	**(7,678)**	**(12,627)**
Net carrying value:				
As at 1 January 2018	**16,816**	**1,078**	**3,436**	**21,330**
As at 31 December 2018 (Note (i))	**16,936**	**1,288**	**3,161**	**21,385**

(Amounts in millions of Renminbi unless otherwise stated)

33 Property, plant and equipment (Continued)

	Buildings	Construction in progress	Computer equipment and others	Total
Cost or deemed cost:				
As at 1 January 2017	17,468	470	10,359	28,297
Additions	3,933	608	877	5,418
Disposals	(47)	—	(130)	(177)
Exchange difference	(41)	—	(88)	(129)
As at 31 December 2017	21,313	1,078	11,018	33,409
Accumulated depreciation:				
As at 1 January 2017	(3,949)	—	(6,514)	(10,463)
Depreciation charges	(568)	—	(1,250)	(1,818)
Disposals	—	—	115	115
Exchange difference	20	—	67	87
As at 31 December 2017	(4,497)	—	(7,582)	(12,079)
Net carrying value:				
As at 1 January 2017	13,519	470	3,845	17,834
As at 31 December 2017 (Note (i))	16,816	1,078	3,436	21,330

Notes:

(i). As at 31 December 2018, the registration transfer process of certain buildings acquired has not been completed, and the net book value of such buildings was approximately RMB1,078 million (as at 31 December 2017: RMB2,859 million). The Group believes the incomplete registration procedure does not affect the rights of the Group as the legal successor to these buildings.

34 Goodwill

	31 December 2018	31 December 2017
As at 1 January	**849**	914
Exchange difference	**47**	(65)
As at 31 December	**896**	849

Based on the result of impairment test, no impairment losses on goodwill were recognised as at 31 December 2018 (as at 31 December 2017: Nil).

35 Deferred tax assets/(liabilities)

	31 December 2018	31 December 2017
Deferred tax assets	**23,174**	21,825
Deferred tax liabilities	**(16)**	(8)
Net	**23,158**	21,817

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(Amounts in millions of Renminbi unless otherwise stated)

35 Deferred tax assets/(liabilities) (Continued)

(a) Analysed by nature and jurisdiction

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
— allowance for impairment losses	95,710	23,729	68,409	17,060
— fair value adjustments	(9,944)	(2,526)	12,357	3,078
— employee retirement benefits and salaries payable	7,430	1,857	6,248	1,562
— others	238	114	402	125
Subtotal	93,434	23,174	87,416	21,825
Deferred tax liabilities				
— fair value adjustments	(86)	(16)	(48)	(8)
Net	93,348	23,158	87,368	21,817

(b) Offsetting of deferred tax assets and deferred tax liabilities

As at 31 December 2018, the deferred tax assets/liabilities offset by the Group were RMB2,720 million (31 December 2017: RMB262 million).

(c) Movement of deferred tax

	Allowance for impairment losses	Fair value adjustments	Employee retirement benefits and accrued staff cost	Others	Total deferred tax
As at 31 December 2017	17,060	3,070	1,562	125	21,817
Change in accounting policy	3,020	(2,588)	—	(10)	422
Recognised in profit or loss	3,633	404	298	2	4,337
Recognised in other comprehensive income	—	(3,430)	(3)	—	(3,433)
Exchange differences	16	2	—	(3)	15
As at 31 December 2018	23,729	(2,542)	1,857	114	23,158
As at 1 January 2017	13,165	(261)	721	(939)	12,686
Recognised in profit or loss	3,899	645	838	1,060	6,442
Recognised in other comprehensive income	—	2,686	3	—	2,689
Exchange differences	(4)	—	—	4	—
As at 31 December 2017	17,060	3,070	1,562	125	21,817

(Amounts in millions of Renminbi unless otherwise stated)

36 Other assets

	Notes	31 December 2018	31 December 2017
Prepayments for properties and equipment	(a)	**10,833**	10,521
Interest receivables	(b)	**2,205**	—
Fee and commission receivables		**3,534**	4,740
Advanced payments and settlement accounts		**2,356**	2,030
Repossessed assets	(c)	**2,203**	2,049
Prepayments for assets acquired for finance leases		**1,679**	1,546
Precious metal leasing		**1,632**	26,313
Prepaid rent		**985**	1,023
Leasehold improvements		**871**	1,315
Land use rights		**993**	1,024
Others	(d)	**10,162**	7,282
Total		**37,453**	57,843

Notes:

(a) ***Prepayments for properties and equipment***

Prepayments for properties and equipment are mainly payments the Group made for office premises being constructed.

(b) ***Interest Receivables***

Interest receivable represents the interest which is matured but not yet collected at the reporting date, net of corresponding allowance for impairment losses. The allowance for impairment losses in relation to interest receivables of the Group is 4,436 million.

(c) ***Repossessed assets***

	Notes	31 December 2018	31 December 2017
Premises		**2,429**	1,931
Others		**499**	518
Gross balance		**2,928**	2,449
Less: Allowance for impairment losses	37	**(725)**	(400)
Net balance		**2,203**	2,049

As at 31 December 2018, the Group intended to dispose all of the repossessed assets, and had no plan to transfer the repossessed assets for own use (as at 31 December 2017: Nil).

(d) ***Others***

Others include continuing involvement in assets, provisional legal costs for lawyers, other long-term deferred expenses, other receivables, etc.

(Amounts in millions of Renminbi unless otherwise stated)

37 Movements of allowance for impairment losses

	Notes	Year ended 31 December 2018 As at 1 January	Charge/ (reversal) for the year	Write-offs/ transfer out	Others Note (i)	As at 31 December
Allowance for credit impairment losses						
Deposits with bank and non-bank financial institutions	19	**60**	**11**	**—**	**3**	**74**
Placements with and loans to banks and non-bank financial institutions	20	**165**	**(1)**	**—**	**1**	**165**
Financial assets held under resale agreements	23	**37**	**(33)**	**—**	**—**	**4**
Interest receivables		**4,970**	**3,034**	**(3,606)**	**(4,398)**	**—**
Loans and advances to customers	25	**97,905**	**47,753**	**(46,938)**	**2,512**	**101,232**
Financial investments at amortised cost	26	**3,044**	**999**	**(689)**	**16**	**3,370**
at fair value through other comprehensive income		**950**	**75**	**—**	**14**	**1,039**
Other assets – financial assets		**2,334**	**6,098**	**(1,182)**	**4,729**	**11,979**
Off balance sheet credit assets	45	**4,557**	**(50)**	**—**	**36**	**4,543**
Subtotal		**114,022**	**57,886**	**(52,415)**	**2,913**	**122,406**
Allowance for impairment losses on other assets						
Other assets – repossessed assets		**400**	**347**	**(7)**	**(15)**	**725**
Total		**400**	**347**	**(7)**	**(15)**	**725**

	Notes	Year ended 31 December 2017 As at 1 January	Charge/ (reversal) for the year	Write-offs/ transfer out	Others Note (i)	As at 31 December
Deposits with bank and non-bank financial institutions	19	34	(32)	—	(2)	—
Placements with and loans to banks and non-bank financial institutions	20	9	—	—	(8)	1
Interest receivables	24	3,906	4,212	(3,977)	(195)	3,946
Loans and advances to customers	25	75,543	50,170	(35,691)	881	90,903
Available-for-sale financial assets	27	162	(69)	—	(15)	78
Held-to-maturity investments	28	2	(2)	—	—	—
Investments classified as receivables	29	1,756	1,018	—	169	2,943
Other assets		2,360	567	(364)	38	2,601
Total (Note (ii))		83,772	55,864	(40,032)	868	100,472

Note:

(i) Others include unwinding of interest on impaired financial assets, reclassification of interest receivables, and effect of exchange differences during the year.

(ii) In addition to the allowance for impairment losses above, the Group also charged impairment losses against off-balance sheet items (Note 12).

(Amounts in millions of Renminbi unless otherwise stated)

38 Deposits from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	31 December 2018	31 December 2017
In Mainland China		
— banks	**208,427**	170,801
— non-bank financial institutions	**565,387**	611,011
Subtotal	**773,814**	781,812
Outside Mainland China		
— banks	**4,242**	16,142
— non-bank financial institutions	**57**	53
Subtotal	**4,299**	16,195
Accrued interest	**4,151**	—
Total	**782,264**	798,007

39 Placements from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	31 December 2018	31 December 2017
In Mainland China		
— banks	**58,681**	43,172
— non-bank financial institutions	**47,239**	28,733
Subtotal	**105,920**	71,905
Outside Mainland China		
— banks	**9,197**	5,690
Accrued interest	**241**	—
Total	**115,358**	77,595

40 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparties

	31 December 2018	31 December 2017
In Mainland China		
— PBOC	**93,151**	88,063
— banks	**25,911**	46,321
— non-bank financial institutions	**1,000**	—
Subtotal	**120,062**	134,384
Outside Mainland China		
— banks	**218**	116
Subtotal	**218**	116
Accrued interest	**35**	—
Total	**120,315**	134,500

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

40 Financial assets sold under repurchase agreements (Continued)

(b) Analysed by type of collateral

	31 December 2018	31 December 2017
Discounted bills	**33,809**	52,415
Debt securities	**86,471**	82,085
Accrued interest	**35**	—
Total	**120,315**	134,500

The Group did not derecognise financial assets transferred as collateral in connection with financial assets sold under repurchase agreements. As at 31 December 2018, non of the legal title of the collateral pledged disclosed in Note 58 has been transferred to counterparties.

41 Deposits from customers

Analysed by nature:

	31 December 2018	31 December 2017
Demand deposits		
— corporate customers	**1,516,861**	1,645,002
— personal customers	**262,960**	234,961
Subtotal	**1,779,821**	1,879,963
Time and call deposits		
— corporate customers	**1,382,230**	1,223,018
— personal customers	**449,549**	298,477
Subtotal	**1,831,779**	1,521,495
Outward remittance and remittance payables	**4,823**	6,178
Accrued interest	**33,188**	—
Total	**3,649,611**	3,407,636

Guarantee deposits included in above deposits:

	31 December 2018	31 December 2017
Bank acceptances	**163,066**	195,308
Guarantees	**21,757**	24,941
Letters of credit	**6,234**	9,289
Others	**109,627**	108,830
Total	**300,684**	338,368

(Amounts in millions of Renminbi unless otherwise stated)

42 Accrued staff costs

	Notes	Year ended 31 December 2018 As at 1 January	Additions during the year	Payments during the year	As at 31 December
Short-term employee benefits	(a)	**8,635**	**22,660**	**(20,909)**	**10,386**
Post-employment benefits — defined contribution plans	(b)	**34**	**2,453**	**(2,456)**	**31**
Post-employment benefits — defined benefit plans	(c)	**44**	**102**	**(111)**	**35**
Other long-term benefits		**125**	**6**	**(34)**	**97**
Total		**8,838**	**25,221**	**(23,510)**	**10,549**

	Notes	Year ended 31 December 2017 As at 1 January	Additions during the year	Payments during the year	As at 31 December
Short-term employee benefits	(a)	8,673	23,253	(23,291)	8,635
Post-employment benefits — defined contribution plans	(b)	32	2,377	(2,375)	34
Post-employment benefits — defined benefit plans	(c)	35	11	(2)	44
Other long-term benefits		79	89	(43)	125
Total		8,819	25,730	(25,711)	8,838

(a) Short-term employee benefits

	Year ended 31 December 2018 As at 1 January	Additions during the year	Payments during the year	As at 31 December
Salaries and bonuses	**7,553**	**17,818**	**(15,915)**	**9,456**
Social insurance	**28**	**1,469**	**(1,452)**	**45**
Welfare expenses	**—**	**1,400**	**(1,398)**	**2**
Housing fund	**10**	**1,300**	**(1,302)**	**8**
Labour union expenses and employee education expenses	**955**	**416**	**(566)**	**805**
Housing allowance	**75**	**196**	**(217)**	**54**
Others	**14**	**61**	**(59)**	**16**
Total	**8,635**	**22,660**	**(20,909)**	**10,386**

	Year ended 31 December 2017 As at 1 January	Additions during the year	Payments during the year	As at 31 December
Salaries and bonuses	7,483	18,594	(18,524)	7,553
Social insurance	49	1,324	(1,345)	28
Welfare expenses	—	1,121	(1,121)	—
Housing fund	19	1,291	(1,300)	10
Labour union expenses and employee education expenses	1,060	378	(483)	955
Housing allowance	48	497	(470)	75
Others	14	48	(48)	14
Total	8,673	23,253	(23,291)	8,635

(Amounts in millions of Renminbi unless otherwise stated)

42 Accrued staff costs (Continued)

(b) Post-employment benefits – defined contribution plans

Post-employment benefits defined contribution plans include contributions to statutory retirement plan. Pursuant to the relevant laws and regulations in the PRC governing labor and social security, the Group joins statutory retirement plan for the employees as set out by city and provincial governments. The Group is required to make contributions based on defined ratios of the salaries, bonuses and certain allowance of the employees to the statutory retirement plan under the administration of the government.

In addition to the above statutory retirement plan, the Bank's qualified employees have joined a defined contribution retirement scheme (the "Scheme") which was established by the Group and managed by the CITIC Group. For the year ended 31 December 2018,The Bank has made annuity contributions at 5% (31 December 2017: 5%) of its employee's gross wages. For the year ended 31 December 2018, the Bank made annuity contribution amounting to RMB757 million (year ended 31 December 2017: RMB662 million).

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme for Hong Kong staff. Contributions are charged to profit or loss when the contribution fall due.

(c) Post-employment benefits – defined benefit plans

The Group offers supplementary retirement benefits for certain of its qualified employees in Mainland China. Retired employees are eligible to join this supplementary retirement benefit plan. The amount that is recognised as at reporting date presents the discounted value of benefit obligation in the future.

The Group's obligations in respect of the supplementary retirement benefit plan as at the reporting date are based on the projected unit credit actuarial cost method and computed by a qualified professional actuary firm (a member of Society of Actuaries in the United States of America).

Save for the disclosed above, the Group has no other material obligation for payment of retirement benefits.

43 Taxes payable

	31 December 2018	31 December 2017
VAT and surcharges	**3,342**	4,175
Income tax	**1,570**	4,668
Others	**8**	15
Total	**4,920**	8,858

44 Interest payable

	31 December 2017
Deposits from customers	28,097
Borrowings from central banks and deposits from banks and non-bank financial institutions	7,311
Debt securities issued	3,551
Others	364
Total	39,323

The accrued interests of 2018 derived from respective financial liabilities are disclosed in Note 38, Note 39, Note 40, Note 41 and Note 46 to conform the presentation in current year.

(Amounts in millions of Renminbi unless otherwise stated)

45 Provisions

	31 December 2018	31 December 2017
Allowance for impairment losses on off-balance sheet items	**4,543**	402
Litigation provisions	**470**	394
Total	**5,013**	796

The movement of off-balance sheet allowance for impairment losses is included in the Note 37.

Movement of provisions:

	31 December 2018	31 December 2017
As at 1 January	**394**	244
Accruals	**220**	152
Reversals	**—**	(2)
Payments	**(144)**	—
As at 31 December	**470**	394

46 Debt securities issued

	Notes	31 December 2018	31 December 2017
Long-term debt securities issued	(a)	**80,296**	94,571
Subordinated bonds issued:			
— by the Bank	(b)	**118,450**	68,448
— by CBI	(c)	**5,520**	5,280
Certificates of deposit issued	(d)	**2,752**	2,849
Certificates of interbank deposit issued	(e)	**341,310**	270,096
Accrued interest		**4,155**	—
Total		**552,483**	441,244

(a) Long-term debt securities issued by the Group as at 31 December 2018:

Bond Type	Issue Date	Maturity Date	Annual Interest Rate	31 December 2018 Nominal Value RMB	31 December 2017 Nominal Value RMB
Fixed rate bond	8 November 2013	12 November 2018	5.20%	**—**	15,000
Fixed rate bond	17 April 2017	17 April 2020	4.20%	**50,000**	50,000
Fixed rate bond	24 May 2017	24 May 2020	4.40%	**2,993**	2,993
Fixed rate bond	21 May 2015	25 May 2020	3.98%	**7,000**	7,000
Fixed rate bond	17 November 2015	17 November 2020	3.61%	**8,000**	8,000
Floating rate bond	14 December 2017	14 December 2020	3.24%	**4,814**	4,555
Fixed rate bond	14 December 2017	14 December 2020	2.88%	**2,063**	1,952
Floating rate bond	14 December 2017	15 December 2022	3.34%	**3,783**	3,579
Fixed rate bond	14 December 2017	15 December 2022	3.13%	**1,719**	1,627
Total nominal value				**80,372**	94,706
Less: Unamortised issuance cost and discount				**(76)**	(90)
Elimination of positions held by a subsidiary				**—**	(45)
Carrying value				**80,296**	94,571

(Amounts in millions of Renminbi unless otherwise stated)

46 Debt securities issued (Continued)

(b) The carrying value of the Bank's subordinated bonds issued as at 31 December:

	Notes	**31 December 2018**	31 December 2017
Subordinated fixed rate bonds maturing:			
— in May 2025	(i)	**11,500**	11,500
— in June 2027	(ii)	**19,983**	19,981
— in August 2024	(iii)	**36,972**	36,967
— in September 2028	(iv)	**30,000**	—
— in October 2028	(v)	**19,995**	—
Total		**118,450**	68,448

Notes:

(i) The interest rate on the subordinated fixed rate bonds issued on 28 May 2010 is 4.30% per annum. The Bank has an option to redeem the bonds on 28 May 2020. If they are not redeemed, the interest rate of the bonds will remain at 4.30% per annum for the next five years.

(ii) The interest rate on the subordinated fixed rate bonds issued on 21 June 2012 is 5.15% per annum. The Bank has an option to redeem the bonds on 21 June 2022. If they are not redeemed, the interest rate of the bonds will remain at 5.15% per annum for the next five years.

(iii) The interest rate on the subordinated fixed rate bonds issued on 26 August 2014 is 6.13% per annum. The Bank has an option to redeem the bonds on 26 August 2019. If they are not redeemed, the interest rate of the bonds will remain 6.13% per annum for the next five years.

(iv) The interest rate on the subordinated fixed rate bonds issued on 13 September 2018 is 4.96% per annum. The Bank has an option to redeem the bonds on 13 September 2023. If they are not redeemed, the interest rate of the bonds will remain 4.96% per annum for the next five years

(v) The interest rate on the subordinated fixed rate bonds issued on 22 October 2018 is 4.8% per annum. The Bank has an option to redeem the bonds on 22 October 2023. If they are not redeemed, the interest rate of the bonds will remain 4.8% per annum for the next five years.

(c) The carrying value of CBI's subordinated bonds issued as at 31 December:

	Notes	**31 December 2018**	31 December 2017
Subordinated fixed rate notes maturing:			
— in June 2020	(i)	**3,465**	3,341
— in May 2024	(ii)	**2,055**	1,939
Total		**5,520**	5,280

Notes:

(i) Subordinated notes with nominal value of USD500 million bear an interest rate of 6.875% per annum were issued on 24 June 2010 by CBI, payable semi-annually. The notes are listed on Singapore Exchange Securities Trading Limited.

(ii) Subordinated notes with nominal value of USD300 million bear interest at a fixed rate of 6.00% per annum were issued on 7 November 2013 by CBI, payable semi-annually until 7 May 2019, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 4.718% per annum if the notes are not redeemed on the call date or any interest payment date thereafter. The notes are listed on the Hong Kong Stock Exchange.

(d) These certificates of deposit were issued by CBI with interest rate ranging from 2.05% to 2.26% per annum.

(e) As at 31 December 2018, the Bank had issued certain certificates of interbank deposits, totaling RMB341,310 million (as at 31 December 2017: RMB270,096 million), with yield ranging from 2.80% to 4.86% (as at 31 December 2017: 4.00% to 5.35%) per annum. The original expiry terms are between one months to one year.

(Amounts in millions of Renminbi unless otherwise stated)

47 Other liabilities

	Note	**31 December 2018**	31 December 2017
Payment and collection accounts		**13,829**	13,545
Settlement and clearing accounts		**11,010**	6,667
Deferred emoluments payable	(i)	**9,162**	6,306
Advances and deferred expenses		**5,818**	4,278
Leasing deposits		**1,579**	1,616
Precious metal contracts		**1,383**	4,872
Accrued expenses		**741**	636
Others		**10,539**	7,996
Total		**54,061**	45,916

Note:

(i) As at 31 December 2018, the deferred emolument payable amounted to RMB9,162 million (31 December 2017: RMB6,306 million). This represents deferred emoluments payable to employees in respect of services provided to the Group. Such amount will be distributed according to plans.

48 Share capital

	31 December 2018 and 31 December 2017	
	Number of shares (millions)	**Nominal Value**
Ordinary shares		
Registered, issued and fully paid:		
A-Share	**34,053**	**34,053**
H-Share	**14,882**	**14,882**
Total	**48,935**	**48,935**

	31 December 2018	31 December 2017
As at 1 January	**48,935**	48,935
Additions	**—**	—
As at 31 December	**48,935**	48,935

49 Preference shares

Financial instruments in issue	**Dividend rate**	**Issued price (RMB)**	**Issued number of shares (RMB millions)**	**Issued nominal value (RMB millions)**	**Maturity Date**	**Conversions**
Preference shares	3.80%	100	350	35,000	No maturity date	No conversion during the year

35,000 million preference shares of RMB100 each were issued in October 2016, with a dividend rate of 3.80% per annum for the first five years from issuance, to no more than 200 qualified investors, pursuant to the approval by its ordinary shareholders' meeting and relevant regulatory authorities.

The carrying amount of preference shares, net of direct issuance expenses, was RMB34,955 millions as at 31 December 2018. All the proceeds received is used to replenish Other Tier-One capital in order to increase the Bank's Tier-One capital adequacy ratio (Note 62). Dividends are non-cumulative and where payable are paid annually. Divident rate at the time of issue is 3.8% per annum and will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 1.30%.

(Amounts in millions of Renminbi unless otherwise stated)

49 Preference shares (Continued)

As authorised by the ordinary shareholders' Annual General Meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has redemption option when specified conditions as stipulated in the offering documents of preference shares are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No.56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price of RMB7.07 per share, partially or entirely. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalisation of reserves and new issuances of ordinary shares, subject to terms and formulae provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary shareholders.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position; and are qualified as Additional Tier-One Capital Instruments in accordance with the CBIRC requirements.

Interests attributable to equity instruments' holder:

	31 December 2018	31 December 2017
Total equity attribute to equity holders of the parent company	**436,661**	388,002
Equity attribute to ordinary equity holders of the parent company	**401,706**	353,047
Equity attribute to other equity holders of the parent company	**34,955**	34,955
— Dividend paid	**1,330**	1,330

For the year ended 31 December 2018, the Bank paid RMB1,330 million dividend to the preference shareholders (for the year ended 31 December 2017: RMB1,330 million).

On 13 December 2018, a private issuance of preference shares is approved the by the Board of Directors. The issuance of preference shares is with no more that RMB40 billion in domestic market, the par value is RMB100 per share. On 30 January 2019, The issuance is approved in the shareholder's meeting.

50 Capital reserves

	31 December 2018	31 December 2017
Share premium	**58,896**	58,896
Other reserves	**81**	81
Total	**58,977**	58,977

	Notes	**31 December 2018**	31 December 2017
As at 1 January		**58,977**	58,636
Contribution by non-controlling shareholders	55	**—**	341
As at 31 December		**58,977**	58,977

(Amounts in millions of Renminbi unless otherwise stated)

51 Other comprehensive income

Other comprehensive income comprises items that will not be reclassified subsequently to profit or loss, such as net changes on the measurement of defined benefit plan (Note 42) and fair value changes on financial investments designated at fair value through other comprehensive income, and items that may be reclassified subsequently to profit or loss, such as fair value changes on financial assets at fair value through other comprehensive income, credit impairment allowance on financial assets at fair value through other comprehensive income and exchange differences on translation.

52 Surplus reserve

	31 December 2018	31 December 2017
As at 1 January	**30,244**	27,263
Appropriations	**4,206**	3,920
As at 31 December	**34,450**	31,183

Under the relevant PRC Laws, the Bank and the Bank's subsidiaries in Mainland China are required to appropriate 10% of its profit for the year, as determined under regulations issued by the regulatory bodies of the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year to the discretionary surplus reserve upon approval by ordinary shareholders at the Annual General Meeting. The Bank makes its appropriation on an annual basis.

Subject to the approval of ordinary shareholders, statutory surplus reserves may be used for replenishing accumulated losses, if any, and may be converted into share capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before the process.

53 General reserve

	31 December 2018	31 December 2017
As at 1 January	**74,251**	73,911
Appropriations	**4**	340
As at 31 December	**74,255**	74,251

Pursuant to relevant Ministry of Finance ("MOF") notices, the Bank and the Group's banking subsidiaries in Mainland China are required to set aside a general reserve to cover potential losses against their assets. The Bank and the Group make its appropriation on an annual basis. As at 31 December 2018, the General Reserve of the Bank has reached 1.5% of the ending balance of gross risk-bearing assets and thus no appropriations in the general reserve have been made by the bank for the year end at 31 December 2018.

54 Profit appropriations and retained earnings

(a) Profit appropriations and distributions other than dividends declared during the year

	Notes	**31 December 2018**	31 December 2017
Appropriations to			
— surplus reserve	52	**4,206**	3,920
— general reserve	53	**4**	340
As at 31 December		**4,210**	4,260

In accordance with the approval from the Board of Directors dated 26 March 2019, the Bank appropriated RMB4,206 million to statutory surplus reserve fund for the year of 2018. General Reserve of the Bank has reached 1.5% of the ending balance of gross risk-bearing assets and thus no appropriations is required by the Bank for the year of 2018. The Group's subsidiary, Lin'an rural bank, made appropriations to general reserve in accordance with relevant regulatory requirements.

(Amounts in millions of Renminbi unless otherwise stated)

54 Profit appropriations and retained earnings (Continued)

(b) In accordance with the resolution approved in the Annual General Meeting of the Bank on 25 May 2018, a total amount of approximately RMB12,772 million (RMB2.61 per 10 shares) were distributed in the form of cash dividend to the ordinary shareholders on 2 July 2018.

(c) In accordance with the resolution approved in the Annual General Meeting of the Bank on 27 August 2018, a total amount of approximately RMB1,330 million (calculated by the bank using the agreed dividend rate of 3.8% with RMB3.80 per share) were distributed in the form of cash dividend to the preference shareholders on 26 October 2018.

(d) On 26 March 2019, the Board of Directors proposed a cash dividend of RMB2.30 per 10 shares in respect of the year ended 31 December 2018. Subject to the approval of the ordinary shareholders at the Annual General Meeting, approximately RMB11,255 million will be payable to those on the register of ordinary shareholders as at the relevant record date. This proposal is a non-adjusting event after the reporting period and has not been recognised as liability as at 31 December 2018.

(e) As at 31 December 2018, the retained earnings included the statutory surplus reserves of certain subsidiaries of RMB200 million(as at 31 December 2017: RMB141 million), of which RMB56 million (as at 31 December 2017: RMB53 million) was the appropriation made by the subsidiaries for the year ended 31 December 2018. Such statutory surplus reserves in the retained earnings cannot be distributed.

55 Non-controlling interests

Non-controlling interests included ordinary shareholders held by non-controlling interest in subsidaries and other equity instrument holders' interests. As at 31 December 2018, other equity instrument holders' interest amounted to RMB8,492 million representing other equity instruments issued by CBI on 22 April 2014, 29 September 2016, and 6 November 2018, an entity ultimately controlled by the Group. Such instruments are perpetual non-cumulative subordinated additional Tier- One capital securities (the "Capital Securities").

Financial instruments in issue	Issue Date	Nominal Value	First Call Date	Coupon Rate	Payment Frequency
Capital Securities	22 April 2014	USD300 millions	22 April 2019	7.25% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 5.627% per annum	Semi-annually
Capital Securities	11 October 2016	USD500 millions	11 October 2021	4.25% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 3.107% per annum	Semi-annually
Capital Securities	6 November 2018	USD500 millions	6 November 2023	7.10% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 4.151% per annum	Semi-annually

CBI may, at its sole discretion, elect to cancel any payment of coupon, in whole or in part, or redeem Capital Securities in whole on the first call date and any subsequent coupon distribution date, where the holders of these Capital Securities have no right to require CBI to redeem. These Capital Securities listed above are classified as other equity instruments.

A distribution payment of RMB289 million was paid to the holders of the Capital Securities during the year ended 31 December 2018 (year ended 31 December 2017: RMB290 million).

(Amounts in millions of Renminbi unless otherwise stated)

55 Non-controlling interests (Continued)

On 29 September 2017, by the approval of the board of directors, the Bank injected capital to CBI, the 100% owned subsidiary of CIFH which is a subsidiary of the Bank. CBI was the second tier wholly-owned subsidiary of the Bank before the capital injection. After the capital injection, CIFH holds 75% equity interests of CBI.

56 Notes to consolidated statement of cash flows

Cash and cash equivalents

	31 December 2018	31 December 2017
Cash	**6,188**	6,740
Cash equivalents		
— Surplus deposit reserve funds	**128,423**	89,288
— Deposits with banks and non-bank financial institutions due within three months when acquired	**88,801**	110,898
— Placements with and loans to banks and non-bank financial institutions due within three months when acquired	**124,923**	79,078
— Investment securities due within three months when acquired	**27,674**	51,911
Subtotal	**369,821**	331,175
Total	**376,009**	337,915

57 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of loan commitments, credit card commitments, financial guarantees, letters of credit and bank acceptances.

Loan commitments and credit card commitments represent the undrawn amount of approved loans with signed contracts and credit card limits. Financial guarantees and letters of credit represent guarantees provided by the Group to guarantee the performance of customers to third parties. Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects the majority acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by categories are set out below. The amounts disclosed in respect of loan commitments and credit card commitments assume that amounts are fully drawn down. The amounts of guarantees, letters of credit and acceptances represent the maximum potential loss that would be recognised at the reporting date if counterparties failed to perform as contracted.

	31 December 2018	31 December 2017
Contractual amount		
Loan commitments		
— with an original maturity within one year	**4,521**	14,926
— with an original maturity of one year or above	**35,508**	57,434
Subtotal	**40,029**	72,360
Guarantees	**393,851**	427,561
Letters of credit	**434,590**	310,315
Bank acceptances	**158,813**	195,746
Credit card commitments	**92,924**	88,772
Total	**1,120,207**	1,094,754

(Amounts in millions of Renminbi unless otherwise stated)

57 Commitments and contingent liabilities (Continued)

(b) Credit commitments analysed by credit risk weighted amount

	31 December 2018	31 December 2017
Credit risk weighted amount of credit commitments	**370,529**	351,475

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of counterparties and the maturity characteristics. The risk weighting used range from 0% to 150%.

(c) Capital commitments

(i) The Group had the following authorised capital commitments in respect of property, plant and equipment at the reporting date:

	31 December 2018	31 December 2017
For the purchase of property and equipment		
Contracted for	**5,356**	7,385

(ii) On 13 December 2018, the Group announced and approved the establishment of a wealth management subsidiary by the Board of Directors. The proposed registered capital of the subsidiary was no more than RMB5 billion, which the bank hold all the shares. As at 31 December 2018, the matters are subject to the approval of relevant regulatory authorities.

(d) Operating lease commitments

The Group leases certain property, plant and equipment under operating leases, which typically run for an initial period from one to five years and may include an option to renew the leases when all terms are renegotiated. As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2018	31 December 2017
Within one year	**3,489**	2,876
After one year but within two years	**2,776**	2,892
After two years but within three years	**2,340**	2,306
After three years but within five years	**3,063**	3,418
After five years	**1,266**	2,122
Total	**12,934**	13,614

(e) Outstanding contingencies including litigation and disputes

The Group has assessed and has made provisions for any probable outflow of economic benefits in relation to commitments and contingent liabilities at the reporting date in accordance with its accounting policies including litigation and disputes.

As at 31 December 2018, the Group was involved in certain potential and pending litigation as defendant with gross claims of RMB271 million (as at 31 December 2017: RMB748 million). Based on the opinion of internal and external legal counsels, the Group had made litigation provisions of RMB220 million for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB152 million) against these litigation (Note 45). Such contingencies, including litigation and disputes, will not have material impact on financial position and operations of the Bank.

(Amounts in millions of Renminbi unless otherwise stated)

57 Commitments and contingent liabilities (Continued)

(f) Bonds redemption obligations

As an underwriting agent of PRC treasury bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of treasury bonds underwritten and sold by the Group, but not yet matured at the reporting date:

	31 December 2018	31 December 2017
Redemption commitment for PRC treasury bonds	**11,101**	11,492

The original maturities of these bonds vary from one to five years. Management of the Group expects the amount of redemption before maturity dates of these bonds will not be material. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

(g) Underwriting obligations

As at 31 December 2018 and 31 December 2017, the Group did not have unfulfilled commitment in respect of securities underwriting business. (as at 31December 2017: Nil)

58 Collateral

(a) Assets pledged

(i) The carrying amount of financial assets pledged as collateral in the Group's ordinary course of businesses, including repurchase agreements and borrowings from central banks, are disclosed as below:

	31 December 2018	31 December 2017
Debt securities	**439,272**	407,755
Discounted bills	**33,955**	52,780
Others	**172**	111
Total	**473,399**	460,646

As at 31 December 2018 and 31 December 2017, the Group's liabilities related to the above collateral were due within 12 months from the effective dates of these agreements and title of these collateral was not transferred to counterparties.

(ii) In addition, as at 31 December 2018, the Group pledged debt securities and deposits with banks and other financial institutions with carrying amount totalling RMB1,335 million (as at 31 December 2017: RMB1,668 million) as collateral for derivative transactions and guarantee funds to exchanges. Title of these pledged assets was not transferred to counterparties.

(b) Collateral accepted

The Group received debt securities as collateral for financial assets held under resale agreements as set out in Note 23. Under the terms of theses agreements, the Group could not resell or re-pledge certain parts of these collateral unless in the event of default by the counterparties. As at 31 December 2018, there was no collateral that can be resold or re-pledged by the Group (as at 31 December 2017: Nil). During the year ended 31 December 2018, the Group did not resell or re-pledge any of these collateral (year ended 31 December 2017: Nil).

(Amounts in millions of Renminbi unless otherwise stated)

59 Transactions on behalf of customers

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals, as well as entrusted provident housing fund mortgage business services. All entrusted loans are made under the instruction or at the direction of these corporations, individuals or provident housing fund centre and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group does not expose to credit risk in relation to these transactions, but acts as an agent to hold and manage these assets and liabilities at the instruction of the entrusting parties and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised on the consolidated statement of financial position. Income received and receivable for providing these services is included in the consolidated statement of profit or loss as fee income.

At the reporting date, the entrusted assets and liabilities were as follows:

	31 December 2018	31 December 2017
Entrusted loans	**640,227**	791,555
Entrusted funds	**640,229**	791,556

(b) Wealth management services

The Group's wealth management services to customers mainly represent sale of wealth management products, including principal guaranteed (Note 65(c)) and non-principal or interest guaranteed wealth management products (Note 65(b)), to corporate and personal banking customers.

The funds raised by non-principal guaranteed wealth management products from investors are invested in various investments, including debt securities and money market instruments, credit assets and other debt instruments, equity instruments etc. Credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers. The Group only earns commission which represents the charges on customers in relation to the provision of custodian, sale and management services. Income is recognised in the consolidated statement of profit or loss as commission income. The Group has entered into placements transactions at market interest rates with the wealth management products vehicles (Note 65(b)).

The assets and liabilities of these wealth management products are not assets and liabilities of the Group and are not recognised on the consolidated statement of financial position.

As at 31 December 2018, the amount of total assets invested by these non-principal guaranteed wealth management products issued by the Group was disclosed in Note 65(b).

60 Segment reporting

Measurement of segment assets and liabilities, and segment income and expenses are based on the Group's accounting policies.

Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "External net interest income/expenses".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets and liabilities do not include deferred tax assets and liabilities. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total costs incurred during the year to acquire assets (including both tangible assets and intangible assets) whose estimated useful lives are over one year.

(a) Business segments

The Group has the following main business segments for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and non-financial institutions, as well as conducts investment banking businesses and international businesses. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers and small enterprises. The products and services comprise loans, deposit services, securities agency services, remittance and settlement services and guarantee services.

Treasury operations

This segment conducts capital markets operations, inter-bank operations, which, specifically, includes inter-bank money market transactions, repurchase transactions, and investments and trading in debt instruments. Furthermore, treasury operations segment also carries out derivatives and forex trading both for the group and for customers.

Others and unallocated

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis. This segment also manages the Group's liquidity position.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(a) Business segments (Continued)

	Year ended 31 December 2018				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
External net interest income/(expense)	53,087	52,250	27,170	(27,735)	104,772
Internal net interest income/(expense)	19,982	(32,360)	(18,247)	30,625	—
Net interest income	73,069	19,890	8,923	2,890	104,772
Net fee and commission income/(expense)	11,609	32,999	618	(78)	45,148
Other net income (Note (i))	2,506	4,250	8,516	574	15,846
Operating income	87,184	57,139	18,057	3,386	165,766
Operating expenses					
— depreciation and amortisation	(1,049)	(552)	(640)	(701)	(2,942)
— others	(19,675)	(25,560)	(3,486)	(937)	(49,658)
Credit impairment losses	(42,216)	(15,295)	(187)	(188)	(57,886)
Impairment losses on other assets	—	—	—	(347)	(347)
Revaluation gain on investment properties	—	—	—	35	35
Share of loss from associates and joint ventures	—	—	—	(642)	(642)
Profit before tax	24,244	15,732	13,744	606	54,326
Income tax					(8,950)
Net profit					45,376
Capital expenditure	1,394	769	851	1,089	4,103

	Year ended 31 December 2018				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
Segment assets	2,328,330	1,155,488	1,488,115	1,067,726	6,039,659
Interest in associates and joint ventures	—	—	118	3,763	3,881
Deferred tax assets					23,174
Total asset					6,066,714
Segment liabilities	3,046,177	1,538,976	716,638	311,821	5,613,612
Deferred tax liabilities					16
Total liabilities					5,613,628
Off-balance sheet credit commitments	1,027,283	92,924	—	—	1,120,207

(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(a) Business segments (Continued)

	Year ended 31 December 2017				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
External net interest income/(expense)	56,534	43,899	20,671	(21,459)	99,645
Internal net interest income/(expense)	16,442	(23,724)	(17,572)	24,854	—
Net interest income	72,976	20,175	3,099	3,395	99,645
Net fee and commission income	13,285	32,866	702	5	46,858
Other net income (Note (i))	819	1,312	7,279	1,318	10,728
Operating income	87,080	54,353	11,080	4,718	157,231
Operating expenses					
— depreciation and amortisation	(995)	(432)	(554)	(830)	(2,811)
— others	(20,691)	(23,747)	(1,552)	(112)	(46,102)
Impairment losses	(44,651)	(9,891)	(210)	(1,035)	(55,787)
Revaluation gain on investment properties	—	—	—	30	30
Share of loss from associates and joint ventures	—	—	—	(285)	(285)
Profit before tax	20,743	20,283	8,764	2,486	52,276
Income tax					(9,398)
Net profit					42,878
Capital expenditure	3,309	1,981	1,953	1,157	8,400

	31 December 2017				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
Segment assets	2,447,930	1,022,133	1,292,692	890,770	5,653,525
Interest in associates and joint ventures	—	—	131	2,210	2,341
Deferred tax assets					21,825
Total asset					5,677,691
Segment liabilities	3,075,264	1,272,327	784,837	132,822	5,265,250
Deferred tax liabilities					8
Total liabilities					5,265,258
Off-balance sheet credit commitments	784,439	310,315	—	—	1,094,754

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging loss and other operating income.

60 Segment reporting (Continued)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities. The Bank's principal subsidiaries, CNCB Investment and CIFH are registered and operating in Hong Kong. The other subsidiaries, Lin'an Rural Bank and CFLL are registered in Mainland China.

In presenting information by geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas where tier-1 branches of the Group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo, as well as Lin'an Rural Bank;

— "Pearl River Delta and West Strait" refers to the following areas where tier-1 branches of the Group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou, Xiamen, and Haikou;

— "Bohai Rim" refers to the following areas where tier-1 branches of the Group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang, Jinan and CFLL;

— "Central" region refers to the following areas where tier-1 branches of the Group are located: Hefei, Zhengzhou, Wuhan, Changsha, Taiyuan and Nanchang;

— "Western" region refers to the following areas where tier-1 branches of the Group are located: Chengdu, Chongqing, Xi'an, Kunming, Nanning, Hohhot, Urumqi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

— "Northeastern" region refers to the following areas where tier-1 branches of the Group is located: Shenyang, Changchun and Harbin;

— "Head Office" refers to the headquarter of the Bank and the Credit Card Center; and

— "Overseas" includes all the operations of CNCB Investment, CIFH and its subsidiaries.

(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(b) Geographical segments (Continued)

	Year ended 31 December 2018									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	26,679	17,920	14,234	16,865	17,332	2,334	3,504	5,904	–	104,772
Internal net interest income/(expense)	(3,327)	(300)	6,477	(2,907)	(5,703)	(489)	6,578	(329)	–	–
Net interest income	23,352	17,620	20,711	13,958	11,629	1,845	10,082	5,575	–	104,772
Net fee and commission income	3,047	2,756	4,571	1,603	1,603	341	29,788	1,439	–	45,148
Other net income (Note (i))	991	216	638	112	103	26	12,979	781	–	15,846
Operating income	27,390	20,592	25,920	15,673	13,335	2,212	52,849	7,795	–	165,766
Operating expense										
— depreciation and amortisation	(515)	(266)	(375)	(342)	(419)	(127)	(704)	(194)	–	(2,942)
— others	(7,404)	(5,628)	(7,581)	(5,066)	(5,062)	(1,194)	(14,892)	(2,831)	–	(49,658)
Credit impairment losses	(8,378)	(6,669)	(11,366)	(6,131)	(8,000)	(4,419)	(11,821)	(1,102)		(57,886)
Impairment losses on other assets	(113)	(9)	(66)	–	(83)	(9)	–	(67)	–	(347)
Revaluation gain on investment properties	–	–	–	–	–	–	–	35	–	35
Share of loss of associates and joint ventures	–	–	–	–	–	–	(288)	(354)	–	(642)
Profit before tax	10,980	8,020	6,532	4,134	(229)	(3,537)	25,144	3,282	–	54,326
Income tax										(8,950)
Profit for the year									–	45,376
Capital expenditure	331	1,017	171	144	311	42	1,641	446	–	4,103

	31 December 2018									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,184,230	812,520	1,255,616	594,775	539,071	97,329	2,442,818	337,570	(1,224,270)	6,039,659
Interest in associates and joint ventures	–	–	–	–	–	–	2,878	1,003	–	3,881
Deferred tax assets										23,174
Total assets										6,066,714
Segment liabilities	1,191,150	800,478	1,228,822	596,075	524,880	106,680	2,084,629	282,868	(1,201,970)	5,613,612
Deferred tax liabilities										16
Total liabilities										5,613,628
Off-balance sheet credit commitments	189,531	133,112	125,076	140,766	77,284	10,914	427,397	16,127	–	1,120,207

(Amounts in millions of Renminbi unless otherwise stated)

60 Segment reporting (Continued)

(b) Geographical segments (Continued)

	Year ended 31 December 2017									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	16,386	14,398	7,764	14,662	14,345	2,375	24,542	5,173	–	99,645
Internal net interest income/(expense)	4,129	2,191	12,649	(158)	(2,061)	(576)	(15,987)	(187)	–	–
Net interest income	20,515	16,589	20,413	14,504	12,284	1,799	8,555	4,986	–	99,645
Net fee and commission income	4,150	3,689	5,724	1,940	1,945	302	27,564	1,544	–	46,858
Other net income (Note (i))	647	372	702	204	99	25	7,108	1,571	–	10,728
Operating income	25,312	20,650	26,839	16,648	14,328	2,126	43,227	8,101	–	157,231
Operating expense										
– depreciation and amortisation	(472)	(289)	(412)	(333)	(386)	(104)	(640)	(175)	–	(2,811)
– others	(7,555)	(5,379)	(7,717)	(5,067)	(4,996)	(1,233)	(11,288)	(2,867)	–	(46,102)
Impairment losses	(13,962)	(10,580)	(9,826)	(7,792)	(7,550)	(742)	(4,103)	(1,232)	–	(55,787)
Revaluation gain on investment properties	–	–	–	–	–	–	30	–	–	30
Share of loss from associates and joint ventures	–	–	–	–	–	–	(204)	(81)	–	(285)
Profit before tax	3,323	4,402	8,884	3,456	1,396	47	27,022	3,746	–	52,276
Income tax										(9,398)
Profit for the year										42,878
Capital expenditure	3,193	198	347	1,161	301	38	2,987	175	–	8,400

	31 December 2017									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,288,981	916,081	1,228,113	626,587	574,942	94,618	2,298,905	306,651	(1,681,353)	5,653,525
Interest in associate and joint ventures	–	–	–	–	–	–	1,196	1,145	–	2,341
Deferred tax assets										21,825
Total assets										5,677,691
Segment liabilities	1,135,639	820,311	1,079,757	565,919	483,560	86,047	2,466,613	266,293	(1,638,889)	5,265,250
Deferred tax liabilities										8
Total liabilities										5,265,258
Off-balance sheet credit commitment	198,104	158,719	154,949	161,686	85,618	13,277	304,020	18,381	–	1,094,754

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging loss and other operating income.

61 Financial risk management

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

— **Credit risk** Credit risk represents the potential loss that may arise from the failure of a customer or counterparty to meet its contractual obligations or commitments to the Group.

— **Market risk** Market risk arises from unfavourable changes in market prices (interest rate, exchange rate, stock price or commodity price) that lead to a loss of on-balance sheet or off-balance sheet business in the Group.

— **Liquidity risk** Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds.

— **Operational risk** Operational risk arises from inappropriate or problematic internal procedures, personnel, IT systems, or external events, such risk includes legal risk, but excluding strategy risk and reputational risk.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The Group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with relevant policies and procedures.

(a) Credit risk

Credit risk management

Credit risk refers to the risk of loss caused by default of debtor or counterparty. Credit risk also occurs when the Group makes unauthorised or inappropriate loans and advances to customers, financial commitments or investments. The credit risk exposure of the Group mainly arises from the Group's loan and advance to customers, treasury businesses and off-balance sheet items.

The Group has standardised management on the entire credit business process including loan application and its investigation, approval and granting of loan, and monitoring of non-performing loans. Through strictly standardising the credit business process, strengthening the whole process management of pre-loan investigation, credit rating and credit granting, examination and approval, loan review and post-loan monitoring, improving the risk of slow-release of collateral, accelerating the disposal of non-performing loans, and promoting the upgrading and transformation of credit management system, the credit risk management of the Group has been comprehensively improved.

The Group writes off the recoverable financial asset when it cannot reasonably expect to recover all or part of the asset. Signs indicating that the recoverable amount cannot be reasonably expected include: (1) the enforcement has been terminated, and (2) the Group's recovery method is to confiscate and dispose of the collateral, but the expected value of the collateral cannot cover the entire principal and interest.

In addition to the credit risk to the Group arising credit assets, the Group manages the credit risk for treasury businesses through prudently selecting peers and other financial institutions with comparable credit levels as counterparties, balancing credit risk with returns on investment, comprehensively considering internal and external credit rating information, granting credit hierarchy, and using credit management system to review and adjust credit commitments on a timely basis, etc. In addition, the Group provides off-balance sheet commitment and guarantee businesses to customers, so it is possible for the Group to make payment on behalf of the customer in case of customer's default and bear risks similar to the loan. Therefore, the Group applies similar risk control procedures and policies to such business to reduce the credit risk.

61 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses

Since 1 January 2018, the Group adapts, the "expected credit loss model" on its debt instruments which are classified as financial assets measured at amortised cost and at fair value through other comprehensive income in accordance with the provisions of IFRS 9.

For financial assets that are included in the measurement of ECL, the Group evaluates whether the credit risks of related financial assets have increased significantly since the initial recognition. The "three-stage" impairment model is used to measure their allowances for impairment losses respectively to recognise ECL and their movements:

Stage 1: Financial instruments with no significant increase in credit risk since initial recognition will be classified as "stage 1" and the Group continuously monitors their credit risk. The allowance of impairment losses of financial instruments in Stage 1 is measured based on the ECL in the next 12 months, which represents the proportion of the ECL in the lifetime due to possible default events in the next 12 months.

Stage 2: If there is a significant increase in credit risk from initial recognition, the Group transfers the related financial instruments to Stage 2, but it will not be considered as credit-impaired instruments. The ECL of financial instruments in Stage 2 is measured based on the lifetime ECL.

Stage 3: If there is a significant impairment in financial instruments, it will be moved to Stage 3. The ECL of financial instruments in Stage 3 is measured based on the lifetime ECL.

POCI financial assets refers to financial assets that are credit-impaired at initial recognition. Allowance for impairment losses on these assets are the lifetime ECL.

The Group measures the ECL for financial assets through testing models, which includes expected loss model and discounted cash flows model. The expected loss model method is applicable to assets related to personal client, assets related to corporate client in stage 1 and 2, interbank investments and off-balance sheet credit assets. Discounted cash flows model is applicable to assets related to corporate client in stage 3.

The Group estimate the ECL in accordance with the IFRS 9, the key judgments and assumptions adopted by the Group are as follows:

(i) Significant increase in credit risk

On each reporting date, the Group evaluates whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. When one or more on quantitative or qualitative threshold, or upper limit are triggered, the credit risk of financial instruments would be considered as increased significantly.

By setting quantitative and qualitative threshold, and upper limit, the Group determines whether the credit risk of financial instruments has increased significantly since initial recognition. The judgment mainly includes (1) credit risk of borrowers declining to Grade 15 or below since initial recognition; (2) significant adverse changes in business, financial or operating conditions of borrowers and in economic conditions; (3) significant increase in other credit risk. For the borrowers who are 30 days (exclusive) to 90 days (inclusive) past due on their contractual payments (including principal and interest), the Group considers that their credit risk has increased significantly and classifies them to stage 2.

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Definition of credit-impaired assets

When credit impairment occurred, the Group defines that the financial asset is in default. In general, a financial asset that is overdue for more than 90 days is considered to be in default.

When one or more events that adversely affect the expected future cash flow of a financial asset occurs, the financial asset becomes a credit-impaired financial asset. Evidence of credit-impaired financial assets includes the following observable information:

- The issuer or borrower is in significant financial difficulties;
- The borrower is in breach of financial covenant(s) such as default or overdue in repayment of interests or principle, etc;
- The creditor gives the debtor no concession under any other circumstances, for economic or contractual reasons relating to the debtor's financial difficulties;
- It is becoming probably that the borrower will enter bankruptcy or other debt restructuring;
- An active market for that financial asset has disappeared because of financial difficulties from issuer or borrower;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The Group's default definition has been consistently applied to the modeling of default probability, default risk exposure and default loss rate in the Group's ECL calculation process.

(iii) Inputs for measurement of expected credit losses

The expected credit loss is measured on either a 12 months or lifetime basis depending on whether a significant increase in credit risk has occurred or whether an asset is considered to be credit-impaired. Related definitions are as follows:

- The probability of default ("PD") represents the likelihood of a borrower defaulting on its financial obligations, either over the next 12 months or over the remaining lifetime of the obligation.
- Loss given default ("LGD") represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default and is calculated on a 12-month or lifetime basis.
- Exposure at default ("EAD") is based on the amounts that the Group expects to be owned at the time of default, over the next 12 months or over the remaining lifetime of the obligation.

The Group regularly monitors and reviews the assumptions related to the calculation of ECL, including the PD and the change in the value of collateral over time.

The Group categorises exposures with similar risk characteristics and estimates the PD, LGD, EAD by the exposures respectively. The Group has obtained sufficient information to ensure its statistical reliability. ECL of the Group is measured based on the continous asessment and follow-up of individuals and their financial status.

During the reporting period, there were no significant changes in the estimated technology or key assumptions.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(iv) Forward-looking information

The assessment of significant increase in credit risk and the calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each asset portfolio.

These economic variables and their associated impact on the PD vary by financial instruments. Expert judgment has been applied in this process, forecasts of these economic variables are estimated by the experts of the Group on a quarterly basis, and the impact of these economic variables on the PD and the exposure at default was determined by statistical regression analysis.

In addition to the neutral economic scenario, the Group determine the possible scenarios and their weightings by a combination of statistical analysis and expert judgment. The Group measures ECL as either a probability weighted 12 months ECL (stage 1) or a probability weighted lifetime ECL (stage 2 and stage 3). These probability-weighted ECL are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

Macroeconomic scenario and weighting information

The Group has built a macro forecast model, and performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio, such as domestic Gross Domestic Product ("GDP"), electricity production and registered urban unemployment rate, etc.

In 2018, the Group has considered different macroeconomic scenarios, and the key macroeconomic scenario assumptions in estimating ECL are set out below:

Variables	Range
Growth rate of domestic GDP, year on year	5.70%-6.82%
Acumulated electricity production, year on year	2.78%-16.69%
Registered urban unemployment rate	3.70%-3.85%

Adopt top-down development approach, the Group has established models including different key economic indicators is established with the new actual default rate of regression model, and use the prediction results and historic default information adjustment coefficient calculation, then realise the provisions for forward-looking adjustment.

The Group considers internal and external data, experts predict, and the best estimate of future, to determine the weightings in positive, neutral and negative scenarios. Neutral is defined as the most likely to happen in the future, as compare to other scenarios. Optimistic scenario and pessimistic scenario represents the possible scenario that is better off or worse off scenario compared to neutral scenario respectively. Currently, the weighting of neutral scenario is equal to the sum of the weightings of other scenarios. Following this assessment, the Group measures ECL as a weighted average probability of ECL in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

For portfolio cannot establish regression model, such as customer default rate is extremely low, or no suitable internal rating data portfolio, etc., the Group mainly uses the regression model has been established a similar combination than expected losses, in order to increase the coverage of existing impairment model.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information

The change of the inputs for measurement of ECL and forward-looking information impact the assessment of significant increase in credit risk and measurement of credit loss.

As at 31 December 2018, assuming the weighting of optimistic scenario increased by 10% while the weighting of neutral scenario decreased by 10%, the allowance for credit impairment losses of the Group will be decreased by 2.868 billion; assuming the weighting of pessimistic scenario increased by 10% while the weighting of neutral scenario decreased by 10%, the allowance for credit impairment losses of the Group will be increased by 2.166 billion;

Allowance for impairment losses of performing loans and advances to customers consists of ECL from Stage 1 and Stage 2 which is measured based on 12 months ECL and lifetime ECL respectively. Loans and advances to customers in Stage 1 transfer to Stage 2 when there is a significant increase in credit risk. The following table presents the estimated impact as if the ECL of all performing loans and advancs to customers are measured based on 12 months ECL, holding all other risk profile constant.

	Year ended 31 December 2018		
	Allowance of impairment losses assuming performing loans and advances to customers are in Stage 1	**Impact of stage transfers**	**Current allowance for impairment losses**
Performing loans and advances to customers	**53,070**	**1,790**	**54,860**

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk at the reporting date without taking into consideration of any collateral held or other credit enhancement is represented by the net balance of each type of financial assets in the consolidated statement of financial position after deducting any allowance for impairment losses. A summary of the maximum exposure is as follows:

	31 December 2018					
	Stage 1	Stage 2	Stage 3	Not applicable	Total	31 December 2017
Balances with central banks	532,520	—	—	—	532,520	561,560
Deposits with bank and non-bank financial institutions	99,153	—	—	—	99,153	124,350
Placements with and loans to banks and non-bank financial institutions	176,159	—	1	—	176,160	172,069
Financial assets at fair value through profit or loss	—	—	—	—	—	61,380
Derivative financial assets	—	—	—	31,991	31,991	65,451
Financial assets held under resale agreements	10,790	—	—	—	10,790	54,626
Interest receivables	—	—	—	—	—	32,643
Loans and advances to customers	3,425,701	70,888	19,061	—	3,515,650	3,105,984
Financial investments						
— at fair value through profit or loss	—	—	—	308,872	308,872	—
— at amortised cost	773,878	3,738	622	—	778,238	—
— at fair value through other comprehensive income	510,020	105	221	—	510,346	—
— designated at fair value through other comprehensive income	—	—	—	2,707	2,707	—
Available-for-sale financial assets	—	—	—	—	—	510,790
Held-to-maturity investments	—	—	—	—	—	216,586
Investments classified as receivables	—	—	—	—	—	531,118
Other financial assets	17,440	2,191	4,667	—	24,298	47,972
Subtotal	5,545,661	76,922	24,572	343,570	5,990,725	5,484,529
Credit commitments	1,114,830	5,257	120	—	1,120,207	1,094,754
Maximum credit risk exposure	6,660,491	82,179	24,692	343,570	7,110,932	6,579,283

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(i) Maximum credit risk exposure (Continued)

According to the quality of assets, the Group classified the credit rating of the financial assets as risk level 1, risk level 2, risk level 3 and default. "Risk level 1" refers to customers who have competitive advantages among local peers with good foundations, outstanding operation results, strong operational and financial strength, and/or good corporate governance structure. "Risk level 2" refers to customers who are in the middle tier among local peers with fair foundations, fair operation results, fair operational and financial strength, and/or fair corporate governance structure. "Risk level 3" refers to customers who are in the lower-tier among local peers, with weak foundations, poor operation results, poor operational and financial strength, and/or deficiency in corporate governance structure. The definition of "Default" is same as the definition of credit-impaired. The credit rating is used for internal risk management.

The following table provides an analysis of loans and advances to customers and financial investments that are included in the ECL assessment according to the credit risk level. The book value of the following financial assets is the Group's maximum exposure to credit risk for these assets.

	31 December 2018						
	Risk level 1	Risk level 2	Risk level 3	Default	Subtotal	Allowance for impairment losses	Net balance
Loans and advances to customers							
Stage 1 (Note (i))	2,713,135	683,890	60,616	—	3,457,641	(31,940)	3,425,701
Stage 2	414	9,373	83,889	—	93,676	(22,788)	70,888
Stage 3	—	—	—	65,433	65,433	(46,372)	19,061
Financial investments at amortised cost							
Stage 1	671,939	104,619	—	—	776,558	(2,680)	773,878
Stage 2	—	3,890	—	—	3,890	(152)	3,738
Stage 3	—	—	—	1,160	1,160	(538)	622
Financial investments at fair value through other comprehensive income							
Stage 1	493,858	16,162	—	—	510,020	(727)	510,020
Stage 2	—	105	—	—	105	(2)	105
Stage 3	—	—	—	221	221	(310)	221
Maximum credit risk exposure	3,879,346	818,039	144,505	66,814	4,908,704	(105,509)	4,804,234

Note:

Stage 1 includes loans and advances to customers measured at fair value through other comprehensive income, and its corresponding impairment does not include in the "Allowance for impairment losses" as shown in the table.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) *Sensitivity information (Continued)*

(ii) *Measurement of expected credit losses*

The following table shows the movement in carrying value of loans and advances to customers in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	3,036,736	92,227	67,933
Movements			
Net transfers out from Stage 1	(84,271)	—	—
Net transfers in to Stage 2	—	11,115	—
Net transfers in to Stage 3	—	—	73,156
Net transactions incurred during the year (Note (i))	495,119	(10,215)	(28,961)
Write-off	—	—	(46,937)
Others (Note (ii))	10,057	549	242
As at 31 December 2018	3,457,641	93,676	65,433

The following table shows the movement in carrying value of financial investment in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	1,064,552	347	45
Movements			
Net transfers out from Stage 1	(8,430)	—	—
Net transfers in to Stage 2	—	3,875	—
Net transfers in to Stage 3	—	—	4,555
Net transactions incurred during the year (Note (i))	227,172	(236)	(2,528)
Write-off	—	—	(689)
Others (Note (ii))	3,280	9	2
As at 31 December 2018	1,286,574	3,995	1,385

Notes:

(i) Net transactions incurred mainly includes changes in carrying amount due to purchased, originated or de-recognition excepting for write-off.

(ii) Others include reclassification of interest receivables, and effect of exchange differences during the year.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in allowance for impairment of loans and advances to customers in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	30,664	24,674	42,565
Movements (Note (i))			
Net transfers out from Stage 1	(1,870)	—	—
Net transfers in to Stage 2	—	515	—
Net transfers in to Stage 3	—	—	48,640
Net transactions incurred during the year (Note (ii))	4,702	(1,838)	(1,337)
Changes in parameters for the year (Note (iii))	(1,540)	(625)	1,107
Write-off	—	—	(46,937)
Others (Notes (iv))	116	62	2,334
As at 31 December 2018	32,072	22,788	46,372

The following table shows the movement in allowance for impairment of financial investment in current reporting period:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	3,953	10	31
Movements (Note (i))			
Net transfers out from Stage 1	(239)	—	—
Net transfers in to Stage 2	—	144	—
Net transfers in to Stage 3	—	—	1,843
Net transactions incurred during the year (Note (ii))	370	—	—
Changes in parameters for the year (Note (iii))	(703)	—	(341)
Write-off	—	—	(689)
Others (Notes (iv))	26	—	4
As at 31 December 2018	3,407	154	848

Notes:

(i) Movements mainly include the impacts to ECL due to changes in stages.

(ii) Net transactions incurred during mainly includes changes in allowance of impairment due to purchased, originated or de-recognition excepting for write-off.

(iii) Changes in parameters mainly include changes in risk exposure and the impacts to ECL due to changes in PD and LGD resulting from regular update on modeling parameters rather than stages movements,.

(iv) Others include unwinding interest on impaired financial assets, reclassification of interest receivables, and effect of exchange differences.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(iii) Loans and advances to customers analysed by industry sector:

	31 December 2018			31 December 2017		
	Gross balance	**%**	**Loans and advances secured by collateral**	Gross balance	%	Loans and advances secured by collateral
Corporate loans						
— real estate	**312,923**	**8.7**	**273,640**	333,055	10.4	272,486
— manufacturing	**295,005**	**8.2**	**140,199**	324,029	10.1	141,571
— rental and business services	**282,699**	**7.8**	**177,013**	221,786	6.9	134,207
— water, environment and public utility management	**208,922**	**5.8**	**106,882**	179,441	5.6	87,763
— wholesale and retail	**151,391**	**4.2**	**89,064**	193,818	6.1	103,102
— transportation, storage and postal services	**151,038**	**4.2**	**76,331**	152,851	4.8	79,120
— construction	**79,086**	**2.2**	**31,980**	77,878	2.4	31,442
— production and supply of electric power, gas and water	**72,938**	**2.0**	**40,669**	70,523	2.2	32,688
— public management and social organisations	**13,366**	**0.4**	**2,721**	18,566	0.6	5,399
— others	**313,757**	**8.6**	**128,377**	285,900	8.9	120,153
Subtotal	**1,881,125**	**52.1**	**1,066,876**	1,857,847	58.0	1,007,931
Personal loans	**1,484,490**	**41.0**	**1,000,203**	1,231,584	38.6	859,513
Discounted bills	**242,797**	**6.7**	**—**	107,456	3.4	—
Accrued interest	**8,338**	**0.2**	**—**	—	—	—
Gross loans and advances to customers	**3,616,750**	**100.0**	**2,067,079**	3,196,887	100.0	1,867,444

(iv) Loans and advances to customers analysed by geographical sector:

	31 December 2018			31 December 2017		
	Gross balance	**%**	**Loans and advances secured by collateral**	Gross balance	%	Loans and advances secured by collateral
Bohai Rim (including Head Office)	**1,123,293**	**31.1**	**426,447**	967,864	30.3	428,764
Yangtze River Delta	**784,722**	**21.7**	**507,327**	691,183	21.6	443,504
Pearl River Delta and West Strait	**549,491**	**15.2**	**448,719**	493,118	15.4	390,394
Central	**463,100**	**12.8**	**296,286**	421,810	13.2	265,898
Western	**433,143**	**12.0**	**269,765**	389,152	12.2	231,120
Northeastern	**75,682**	**2.1**	**51,582**	67,609	2.1	44,403
Outside Mainland China	**178,981**	**4.9**	**66,953**	166,151	5.2	63,361
Accrued interest	**8,338**	**0.2**	**—**	—	—	—
Total	**3,616,750**	**100.0**	**2,067,079**	3,196,887	100.0	1,867,444

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(v) Loans and advances to customers analysed by type of security

	31 December 2018	31 December 2017
Unsecured loans	**806,154**	708,164
Guaranteed loans	**492,382**	513,823
Secured loans	**2,067,079**	1,867,444
— loans secured by collateral	**1,658,484**	1,510,366
— pledged loans	**408,595**	357,078
Subtotal	**3,365,615**	3,089,431
Discounted bills	**242,797**	107,456
Accrued interest	**8,338**	—
Gross loans and advances to customers	**3,616,750**	3,196,887

(vi) Rescheduled loans and advances to customers

	31 December 2018		31 December 2017	
	Gross balance	**% of total loans and advances**	Gross balance	% of total loans and advances
Rescheduled loans and advances:	**21,588**	**0.60%**	23,245	0.73%
— rescheduled loans and advances overdue more than 3 months	**18,748**	**0.52%**	19,859	0.62%

Rescheduled loans and advances are those loans and advances to customers which have been rescheduled or renegotiated because of deterioration in the financial position of the borrowers, or of the inability of the borrowers to meet their original repayment schedule and for which the revised repayment terms are a concession that the Group would not otherwise consider. As at 31 December 2018, with borrowers' financial difficulty, the concession the Group considered resulted from economic or legal reasons is not significant.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(vii) Debt securities analysed by credit rating

The Group adopts a credit rating approach to manage credit risk of its debt instruments portfolio. The ratings are obtained from major rating agencies where the debt instruments are issued. The carrying amounts of debt instruments investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2018					
	Unrated (Note (i))	AAA	AA	A	Below A	Total
Debt securities issued by:						
— governments	371,368	114,370	11,693	265	—	497,696
— policy banks	108,816	8,664	—	7,016	—	124,496
— public entities	178	29	1,666	—	—	1,873
— banks and non-bank financial institutions	26,995	181,031	4,569	23,595	9,591	245,781
— corporates	55,240	48,675	10,047	7,230	6,254	127,446
Investment management products managed by securities companies	228,392	—	—	—	—	228,392
Trust investment plans	178,019	—	—	—	—	178,019
Total	969,008	352,769	27,975	38,106	15,845	1,403,703

	31 December 2017					
	Unrated (Note (i))	AAA	AA	A	Below A	Total
Debt securities issued by:						
— governments	257,551	48,565	8,440	375	—	314,931
— policy banks	127,848	—	—	609	—	128,457
— public entities	3	—	1,151	—	—	1,154
— banks and non-bank financial institutions	8,506	160,311	3,986	15,953	6,734	195,490
— corporates	9,014	96,367	23,018	15,138	5,187	148,724
Total	402,922	305,243	36,595	32,075	11,921	788,756

Note:

(i) Unrated debt securities held by the Group are bonds issued primarily by the Chinese government, policy banks, banks, non-bank financial institutions, investment management products managed by securities companies and trust investment plans.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Sensitivity information (Continued)

(viii) Investments classified as receivables analysed by type of underlying assets

	30 June 2018	31 December 2017
Investment management products managed by securities companies and trust investment plans		
— interbank assets products issued by other banks	**16,650**	—
— credit assets	**300,089**	—
— rediscounted bills	**89,831**	—
Investments classified as receivables		
— interbank assets and wealth management products issued by other banks	—	153,510
— credit assets	—	303,386
— rediscounted bills	—	77,165
Total	**406,570**	534,061

The Group divides investment management products managed by securities companies and trust investment plans into comprehensive credit management system, to manage its credit risk exposure in a holistic manner. The type of collateral of credit assets includes guarantee, security by collateral, and pledge.

(b) Market risk

Market risk refers to risks that may cause a loss of on-balance sheet and off-balance sheet businesses for the Group due to the adverse movement of market prices, including interest rates, foreign exchange rates, stock prices and commodity prices. The Group has established a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and limit management.

Risk and Internal Control Committee of the Group is responsible for approving market risk management policies, establishing appropriate organisational structure and information systems to effectively identify, measure, monitor and control market risks, and ensuring adequate resources to reinforce the market risk management. The Risk Management Department is responsible for independently managing and controlling market risks of the Group, including developing market risk management policies and authorisation limits, providing independent report of market risk to identify, measure and monitor the Group's market risk. Business departments are responsible for the day-to-day management of market risks, including effectively identifying, measuring, controlling market risk factors associated with the relevant operations, so as to ensure the dynamic balance between business development and risk undertaking.

The Group uses sensitivity analysis, foreign exchange exposure and interest rate re-pricing gap analysis as the primary instruments to monitor market risk.

Interest rate risk and currency risk are the major market risks that the Group is exposed to.

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk

The Group's interest rate exposures mainly arise from the mismatching of assets and liabilities' re-pricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its re-pricing risk and adjust the ratio of floating and fixed rate exposures, the loan re-pricing cycle, as well as optimise the term structure of its deposits accordingly.

The Group implements various methods, such as duration analysis, sensitivity analysis, stress testing and scenario simulation, to measure, manage and report the interest rate risk on a regular basis.

The following tables summarise the average interest rates, and the next re-pricing dates or contractual maturity date whichever is earlier for the assets and liabilities as at the end of each reporting date.

	31 December 2018						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.54%	538,708	17,047	521,661	—	—	—
Deposits with banks and non-bank financial institutions	2.22%	99,153	114	94,039	5,000	—	—
Placements with and loans to banks and non-bank financial institutions	3.38%	176,160	873	129,236	46,051	—	—
Financial assets held under resale agreements	2.59%	10,790	—	10,790	—	—	—
Loans and advances to customers (Note (ii))	4.86%	3,515,650	8,635	1,577,525	918,215	996,066	15,209
Financial investments							
— at fair value through profit or loss		308,872	225,164	28,057	26,624	20,915	8,112
— at amortised cost	4.71%	778,238	8,541	67,972	181,186	388,840	131,699
— at fair value through other comprehensive income	3.80%	510,346	8,529	42,830	73,607	288,337	97,043
— designated at fair value through other comprehensive income		2,707	2,707	—	—	—	—
Others		126,090	124,208	1,711	171	—	—
Total assets		6,066,714	395,818	2,473,821	1,250,854	1,694,158	252,063
Liabilities							
Borrowing from central banks	3.29%	286,430	—	68,350	218,080	—	—
Deposits from banks and non-bank financial institutions	3.54%	782,264	4,151	553,283	224,660	170	—
Placements from banks and non-bank financial institutions	3.49%	115,358	241	83,859	31,224	—	34
Financial liabilities at fair value through profit or loss		962	962	—	—	—	—
Financial assets sold under repurchase agreements	2.84%	120,315	35	110,790	9,490	—	—
Deposits from customers	1.88%	3,649,611	20,940	2,605,686	647,223	375,730	32
Debt securities issued	4.52%	552,483	4,155	98,144	247,974	95,260	106,950
Others		106,205	104,823	1,382	—	—	—
Total liabilities		5,613,628	135,307	3,521,494	1,378,651	471,160	107,016
Interest rate gap		453,086	260,511	(1,047,673)	(127,797)	1,222,998	145,047

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

	31 December 2017						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.56%	568,300	23,810	544,490	—	—	—
Deposits with banks and non-bank financial institutions	2.21%	124,350	—	120,240	4,110	—	—
Placements with and loans to banks and non-bank financial institutions	3.07%	172,069	—	87,328	84,741	—	—
Financial assets held under resale agreements	2.89%	54,626	—	54,626	—	—	—
Investments classified as receivables	4.25%	531,118	38,907	196,646	86,330	141,352	67,883
Loans and advances to customers (Note (ii))	4.61%	3,105,984	370	1,391,782	799,622	900,054	14,156
Investments (Note (iii))	3.28%	916,521	123,246	138,729	117,223	386,946	150,377
Others		204,723	178,407	9,383	16,933	—	—
Total assets		5,677,691	364,740	2,543,224	1,108,959	1,428,352	232,416
Liabilities							
Borrowing from central banks	3.13%	237,600	—	41,500	196,100	—	—
Deposits from banks and non-bank financial institutions	3.75%	798,007	2,812	623,409	171,781	5	—
Placements from banks and non-bank financial institutions	2.85%	77,595	—	39,440	38,123	—	32
Financial assets sold under repurchase agreements	2.91%	134,500	—	121,677	12,823	—	—
Deposits from customers	1.59%	3,407,636	14,605	2,647,574	503,511	241,939	7
Debt securities issued	4.17%	441,244	—	199,063	88,880	116,353	36,948
Others		168,676	163,769	2,393	2,514	—	—
Total liabilities		5,265,258	181,186	3,675,056	1,013,732	358,297	36,987
Interest rate gap		412,433	183,554	(1,131,832)	95,227	1,070,055	195,429

Notes:

(i) Average interest rate represented the ratio of interest income/expense to average interest bearing assets/liabilities during the year.

(ii) For loans and advances to customers, the "Less than three months" category included overdue amounts (net of allowance for impairment losses) of RMB42,289 million as at 31 December 2018 (as at 31 December 2017: RMB43,660 million).

(iii) Investments included the financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments in associates and joint ventures.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis as at 31 December 2018 and 31 December 2017.

	31 December 2018		31 December 2017	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(11,435)**	**(1,409)**	(6,328)	(1,229)
-100 basis points	**11,435**	**1,409**	6,328	1,229

This sensitivity analysis is based on a static interest rate risk profile of the Group's non-derivative assets and liabilities and certain assumptions as discussed below. The analysis measures only the impact of changes in interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's non-derivative assets and liabilities within the one-year period. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or mature within the three months bracket, and the after three months but within one year bracket are both reprice or mature at the beginning of the respective periods, (ii) it does not reflect the potential impact of unparalleled yield curve movements, and (iii) there are no other changes to the portfolio, all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income and other comprehensive income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Currency risk

Currency risk arises from the potential change of exchange rates that cause a loss to the on-balance sheet and off-balance sheet business of the Group. The Group measures its currency risk with foreign currency exposures, and manages its currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currency, as well as using derivative financial instruments, mainly foreign exchange swaps, to manage its exposure.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The exposures at the reporting date were as follows:

	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	525,321	12,668	535	184	538,708
Deposits with banks and non-bank financial institutions	64,670	23,757	2,429	8,297	99,153
Placements with and loans to banks and non-bank financial institutions	123,262	41,291	9,137	2,470	176,160
Financial assets held under resale agreements	9,832	958	—	—	10,790
Loans and advances to customers	3,263,386	122,573	109,773	19,918	3,515,650
Financial investments					
— at fair value through profit or loss	287,997	18,146	2,729	—	308,872
— at amortised cost	775,749	2,489	—	—	778,238
— at fair value through other comprehensive income	429,671	50,766	23,970	5,939	510,346
— designated at fair value through other comprehensive income	2,340	155	212	—	2,707
Others	121,762	1,858	515	1,955	126,090
Total assets	5,603,990	274,661	149,300	38,763	6,066,714
Liabilities					
Borrowings from central banks	286,430	—	—	—	286,430
Deposits from banks and non-bank financial institutions	777,789	2,582	131	1,762	782,264
Placements from banks and non-bank financial institutions	101,094	14,139	125	—	115,358
Financial liabilities at fair value through profit or loss	—	962	—	—	962
Financial assets sold under repurchase agreements	120,097	218	—	—	120,315
Deposits from customers	3,283,244	205,993	138,905	21,469	3,649,611
Debt securities issued	531,768	20,715	—	—	552,483
Others	93,020	3,626	7,625	1,934	106,205
Total liabilities	5,193,442	248,235	146,786	25,165	5,613,628
Net on-balance sheet position	410,548	26,426	2,514	13,598	453,086
Credit commitments	1,004,799	95,187	12,862	7,359	1,120,207
Derivatives (Note (i))	33,795	(38,861)	22,205	(14,261)	2,878

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

	31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	551,528	15,956	650	166	568,300
Deposits with banks and non-bank financial institutions	83,703	25,650	8,411	6,586	124,350
Placements with and loans to banks and non-bank financial institutions	133,686	28,356	6,703	3,324	172,069
Financial assets held under resale agreements	54,626	—	—	—	54,626
Investments classified as receivables	531,118	—	—	—	531,118
Loans and advances to customers	2,880,887	106,687	103,638	14,772	3,105,984
Investments	846,759	46,739	18,687	4,336	916,521
Others	199,761	1,904	1,618	1,440	204,723
Total assets	5,282,068	225,292	139,707	30,624	5,677,691
Liabilities					
Borrowings from central banks	237,600	—	—	—	237,600
Deposits from banks and non-bank financial institutions	769,690	15,103	349	12,865	798,007
Placements from banks and non-bank financial institutions	66,913	10,411	253	18	77,595
Financial assets sold under repurchase agreements	134,384	116	—	—	134,500
Deposits from customers	3,053,751	201,668	128,314	23,903	3,407,636
Debt securities issued	421,420	19,122	702	—	441,244
Others	159,456	1,966	3,381	3,873	168,676
Total liabilities	4,843,214	248,386	132,999	40,659	5,265,258
Net on-balance sheet position	438,854	(23,094)	6,708	(10,035)	412,433
Credit commitments	938,064	117,615	20,124	18,951	1,094,754
Derivatives (Note (i))	(20,790)	9,158	21,489	7,532	17,389

Note:

(i) Derivatives represent the net notional amount of currency derivatives, including undelivered foreign exchange spot, foreign exchange forward, foreign exchange swap and currency option.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's profit or loss and other comprehensive income. The following table sets forth, as at 31 December 2018 and 31 December 2017, the results of the Group's foreign exchange rate sensitivity analysis.

	31 December 2018		31 December 2017	
	Profit before tax	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**582**	**(1)**	582	6
5% depreciation	**(582)**	**1**	(582)	(6)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain assumptions as follows: (i) the foreign exchange sensitivity is the gain and loss recognised as a result of 500 basis point fluctuation in the foreign currency exchange rates against RMB at the reporting date, (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously and does not take into account the correlation effect of changes in different foreign currencies, and (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, foreign exchange derivative instruments, and; all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's profit and other comprehensive income resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis. Precious metal is included in foreign currency for the purpose of this sensitivity analysis.

(c) Liquidity risk

Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds. The Group's liquidity risk arises mainly from the mismatch of assets to liabilities and customers may concentrate their withdrawals.

The Group has implemented overall liquidity risk management on the entity level. The headquarters has the responsibility for developing the entire Group's liquidity risk policies, strategies, and implements centralised management of liquidity risk on the entity level. The domestic and foreign affiliates develop their own liquidity policies and procedures within the Group's liquidity strategy management framework, based on the requirements of relevant regulatory bodies.

The Group manages liquidity risk by setting various indicators and operational limits according to the overall position of the Group's assets and liabilities, with referencing to market condition. The Group holds assets with high liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The tools that the Group uses to measure and monitor liquidity risk mainly include:

— Liquidity gap analysis;

— Liquidity indicators (including but not limited to regulated and internal managed indicators, such as liquidity coverage ratio, net stable funding ratio, loan-to-deposit ratio, liquidity ratio, liquidity gap rate, excess reserves rate) monitoring;

— Scenario analysis;

— Stress testing.

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

On this basis, the Group establishes regular reporting mechanisms for liquidity risk to report the latest situation of liquidity risk to the senior management on a timely basis.

Analysis of the remaining contractual maturity of assets and liabilities:

	31 December 2018						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Assets							
Cash and balances with central banks	134,917	—	1,288	—	—	402,503	538,708
Deposits with banks and non-bank financial institutions	65,701	28,245	5,207	—	—	—	99,153
Placements with and loans to banks and non-bank financial institutions	—	129,317	46,843	—	—	—	176,160
Financial assets held under resale agreements	—	10,790	—	—	—	—	10,790
Loans and advances to customers (Note (ii))	7,117	585,723	952,830	910,098	1,022,976	36,906	3,515,650
Financial investments							
— at fair value through profit or loss	—	30,418	43,589	29,476	8,115	197,274	308,872
— at amortised cost	—	68,375	182,641	394,010	132,878	334	778,238
— at fair value through other comprehensive income	31	39,437	75,556	295,308	99,920	94	510,346
— designated at fair value through other comprehensive income	—	—	—	—	—	2,707	2,707
Others	34,630	17,382	12,238	28,655	180	33,005	126,090
Total assets	242,396	909,687	1,320,192	1,657,547	1,264,069	672,823	6,066,714
Liabilities							
Borrowings from central banks	80	68,350	218,000	—	—	—	286,430
Deposits from banks and non-bank financial institutions	319,576	236,910	225,607	171	—	—	782,264
Placements from banks and non-bank financial institutions	—	84,099	31,225	—	34	—	115,358
Financial liabilities at fair value through profit or loss	962	—	—	—	—	—	962
Financial assets sold under repurchase agreements	—	110,823	9,492	—	—	—	120,315
Deposits from customers	1,880,088	746,341	647,718	375,432	32	—	3,649,611
Debt securities issued	—	98,205	247,992	97,354	108,932	—	552,483
Others	50,170	16,677	16,827	6,554	4,419	11,558	106,205
Total liabilities	2,250,876	1,361,405	1,396,861	479,511	113,417	11,558	5,613,628
(Short)/long position	(2,008,480)	(451,718)	(76,669)	1,178,036	1,150,652	661,265	453,086

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Analysis of the remaining contractual maturity of assets and liabilities: (Continued)

	31 December 2017						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note (i))	Total
Assets							
Cash and balances with central banks	96,481	3,523	1,923	–	–	466,373	568,300
Deposits with banks and non-bank financial institutions	69,392	50,819	4,139	–	–	–	124,350
Placements with and loans to banks and non-bank financial institutions	400	86,928	84,741	–	–	–	172,069
Financial assets held under resale agreements	–	54,626	–	–	–	–	54,626
Investments classified as receivables	504	196,142	91,944	174,645	67,883	–	531,118
Loans and advances to customers (Note (ii))	12,973	495,684	769,740	862,643	919,143	45,801	3,105,984
Investments (Note (iii))	1,114	96,202	124,076	417,814	155,248	122,067	916,521
Others	69,662	47,606	55,520	12,831	7,357	11,747	204,723
Total assets	250,526	1,031,530	1,132,083	1,467,933	1,149,631	645,988	5,677,691
Liabilities							
Borrowings from central banks	–	41,550	196,050	–	–	–	237,600
Deposits from banks and non-bank financial institutions	240,616	385,586	171,800	5	–	–	798,007
Placements from banks and non-bank financial institutions	–	39,440	38,123	–	32	–	77,595
Financial assets sold under repurchase agreements	–	121,677	12,823	–	–	–	134,500
Deposits from customers	1,982,218	670,433	513,039	241,939	7	–	3,407,636
Debt securities issued	–	199,063	88,880	116,353	36,948	–	441,244
Others	68,746	42,866	40,546	6,506	1,430	8,582	168,676
Total liabilities	2,291,580	1,500,615	1,061,261	364,803	38,417	8,582	5,265,258
(Short)/long position	(2,041,054)	(469,085)	70,822	1,103,130	1,111,214	637,406	412,433

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities.The amounts disclosed in the table are the contractual undiscounted cash flow:

	31 December 2018						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	134,721	1,621	6,608	—	—	402,503	545,453
Deposits with banks and non-bank financial institutions	67,502	29,625	5,326	—	—	—	102,453
Placements with and loans to banks and non-bank financial institutions	—	134,633	57,838	—	—	—	192,471
Financial assets held under resale agreements	—	10,795	—	—	—	—	10,795
Loans and advances to customers	8,797	620,238	1,042,464	1,197,180	1,536,250	40,738	4,445,667
Financial investments							
— at fair value through profit or loss	—	35,039	47,703	31,114	88,205	200,776	402,837
— at amortised cost	—	74,135	201,371	418,337	163,300	5,880	863,023
— at fair value through other comprehensive income	31	43,751	97,680	375,381	145,474	11,941	674,258
— designated at fair value through other comprehensive income	—	—	—	—	—	2,406	2,406
Others	34,630	17,381	12,239	28,655	180	33,275	126,360
Total assets	245,681	967,218	1,471,229	2,050,667	1,933,409	697,519	7,365,723
Liabilities							
Borrowings from central banks	80	64,769	226,130	—	—	—	290,979
Deposits from banks and non-bank financial institutions	573,392	662,179	485,918	31,575	—	—	1,753,064
Placements from banks and non-bank financial institutions	—	89,065	40,706	—	34	—	129,805
Financial liabilities at fair value through profit or loss	962	—	—	—	—	—	962
Financial assets sold under repurchase agreements	—	110,983	9,483	155	—	—	120,621
Deposits from customers	1,880,996	760,404	679,534	429,917	40	—	3,750,891
Debt securities issued	—	98,780	306,786	180,166	108,932	—	694,664
Others	50,171	16,677	16,827	6,554	4,419	11,558	106,206
Total liabilities	2,505,601	1,802,857	1,765,384	648,367	113,425	11,558	6,847,192
(Short)/long position	(2,259,920)	(835,639)	(294,155)	1,402,300	1,819,984	685,961	518,531
Derivative cash flow							
Derivative financial instrument settled on a net basis	—	(56)	44	128	23	—	139
Derivative financial instruments settled on a gross basis							
— cash inflow	—	1,194,286	1,244,844	48,220	—	—	2,487,350
— cash outflow	—	(802,726)	(1,243,629)	(48,151)	—	—	(2,094,506)

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flow (Continued).

	31 December 2017						
	Repayable on demand	Within three months	Between Three months and one year	Between One and five years	More than five years	Undated (Note (i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	96,481	5,348	7,820	—	—	466,373	576,022
Deposits with banks and non-bank financial institutions	69,392	51,126	4,353	—	—	—	124,871
Placements with and loans to banks and non-bank financial institutions	400	87,275	88,704	—	—	—	176,379
Financial assets held under resale agreements	—	54,664	—	—	—	—	54,664
Investments classified as receivables	504	198,785	104,126	207,422	83,377	—	594,214
Loans and advances to customers	14,928	527,401	851,330	1,121,708	1,373,413	48,140	3,936,920
Investments	1,114	103,323	145,063	470,191	171,707	122,117	1,013,515
Others	69,662	47,606	55,520	12,831	7,357	11,747	204,723
Total assets	252,481	1,075,528	1,256,916	1,812,152	1,635,854	648,377	6,681,308
Liabilities							
Borrowings from central banks	—	42,083	203,230	—	—	—	245,313
Deposits from banks and non-bank financial institutions	240,617	391,400	178,750	6	—	—	810,773
Placements from banks and non-bank financial institutions	—	39,494	38,166	—	33	—	77,693
Financial assets sold under repurchase agreements	—	122,362	13,009	—	—	—	135,371
Deposits from customers	1,983,354	682,437	541,013	271,799	8	—	3,478,611
Debt securities issued	—	200,312	100,698	135,496	40,673	—	477,179
Others	68,746	43,151	40,277	6,491	1,430	8,582	168,677
Total liabilities	2,292,717	1,521,239	1,115,143	413,792	42,144	8,582	5,393,617
(Short)/long position	(2,040,236)	(445,711)	141,773	1,398,360	1,593,710	639,795	1,287,691
Derivative cash flow							
Derivative financial instrument settled on a net basis	—	9	(85)	(295)	17	—	(354)
Derivative financial instruments settled on a gross basis							
— cash inflow	—	1,185,850	1,750,876	27,070	3	—	2,963,799
— cash outflow	—	(1,185,464)	(1,749,920)	(26,861)	—	—	(2,962,245)

(Amounts in millions of Renminbi unless otherwise stated)

61 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Credit Commitments include bank acceptances, credit card commitments, guarantees, loan commitment and letters of credit. The tables below summarise the amounts of credit commitments by remaining contractual maturity.

	31 December 2018			
	Less than 1 year	**1-5 years**	**Over 5 years**	**Total**
Bank acceptancess	**393,851**	**—**	**—**	**393,851**
Credit card commitments	**427,681**	**6,909**	**—**	**434,590**
Guarantees	**83,905**	**68,354**	**6,554**	**158,813**
Loan commitments	**7,033**	**15,578**	**17,418**	**40,029**
Letter of credit	**90,634**	**2,290**	**—**	**92,924**
Total	**1,003,104**	**93,131**	**23,972**	**1,120,207**

	31 December 2017			
	Less than 1 year	1-5 years	Over 5 years	Total
Bank acceptancess	427,490	71	—	427,561
Credit card commitments	310,315	—	—	310,315
Guarantees	113,575	81,171	1,000	195,746
Loan commitments	86,600	2,172	—	88,772
Letter of credit	18,718	24,784	28,858	72,360
Total	956,698	108,198	29,858	1,094,754

Notes:

(i) For cash and balances with central banks, the undated period amount represented statutory deposit reserve funds and fiscal deposits maintained with the PBOC. For placements with and loans to banks and non-bank financial institutions, loans and advances to customers and investments, the undated period amount represented the balances being impaired or overdue for more than one month. Equity investments were also reported under undated period.

(ii) The balances of loans and advances to customers which were overdue within one month but not impaired are included in repayable on demand.

(iii) Investments included the financial assets at fair value through profit or loss, available-for-sale financial assets, and held-to-maturity investments. For investments, the remaining term to maturity did not represent the Group's intended holding period.

61 Financial risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, personnel, IT systems, or external events, including legal risk, but excluding strategy risk and reputational risk.

The Group manages operational risk through a control-based environment by establishing a sound mechanism of operational risk management in order to identify, assess, monitor, control, mitigate and report operational risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. Key controls include:

— by establishing a matrix authorisation management system of the whole group, carrying out the annual unified authorisation work, and strictly restricting the institutions and personnel at all levels to carry out business activities within the scope of authority granted, the management requirements of prohibiting the overstepping of authority to engage in business activities were further clarified at the institutional level;

— through consistent legal responsibility framework, taking strict disciplinary actions against non-compliance in order to ensure accountability;

— promoting operational risk management culture throughout the organisation; building a team of operational risk management professionals. Through formal training and performance appraisal system in raising risk management awareness;

— strengthening cash and account management in accordance with the relevant policies and procedures, intensifying the monitoring of suspicious transactions. Ensure the staff are well-equipped with the necessary knowledge and basic skills on anti-money laundering through continuous training;

— backup systems and disaster recovery plans covering all the major activities, especially backoffice operations in order to minimise any unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain disruptive events.

In addition to the above, the Group improves its operational risk management information systems on an ongoing basis to efficiently identify, evaluate, monitor, control and report its level of operational risk. The Group's management information system has the functionalities of recording and capturing lost data and events of operational risk to further support operational risk control and self-assessment, as well as monitoring of key risk indicators.

62 Capital Adequacy Ratio

Capital adequacy ratio reflects the Group's operational and risk management capability and it is the core of capital management. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testings and other measures to forecast, plan and manage capital adequacy ratio.

The Group's management monitors the Group's and the Bank's capital adequacy regularly based on regulations issued by the CBIRC. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly, respectively.

From 1 January 2013, the Group commenced the computation of its capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) and other relevant regulations promulgated by the CBIRC in the year of 2012. The requirements pursuant to these regulations may have certain differences comparing to those applicable in Hong Kong and other jurisdictions.

(Amounts in millions of Renminbi unless otherwise stated)

62 Capital Adequacy Ratio (Continued)

CBIRC demands that commercial banks shall meet the capital adequacy requirements set out in the "Capital Management Measures for Commercial Banks (Trial)" by the end of 2018. Systematically important banks are required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%. Nonsystematically important bank are required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 7.50%, 8.50% and 10.50%. In addition, overseas subsidiaries and branches are directly regulated by the respective local banking regulators and the requirements of capital adequacy ratios differ by country. During the year, the Group has complied in full with all its externally imposed capital requirements.

The capital adequacy ratios calculated in accordance with Regulation Governing Capital of Commercial Banks (Provisional). According to the requirements, for credit risk, the capital requirement was measured using the weighting method. The market risk was measured by adopting the standardised approach and the operational risk was measured by using the basic indicator approach.

Relevant requirements promulgated by the CBIRC are listed as below.

	31 December 2018	31 December 2017
Core Tier-One capital adequacy ratio	**8.62%**	8.49%
Tier-One capital adequacy ratio	**9.43%**	9.34%
Capital adequacy ratio	**12.47%**	11.65%
Components of capital base		
Core Tier-One capital:		
Share capital	**48,935**	48,935
Qualified portion of capital reserve	**58,977**	58,977
Other comprehensive income	**5,269**	(11,784)
Surplus reserve	**34,450**	31,183
General reserve	**74,255**	74,251
Retained earnings	**179,820**	163,121
Qualified portion of non-controlling interests	**4,422**	3,872
Total core Tier-One capital	**406,128**	368,555
Core Tier-One capital deductions:		
Goodwill (net of related deferred tax liability)	**(896)**	(849)
Other intangible assets other than land use right (net of related deferred tax liability)	**(1,878)**	(1,139)
Core Tier-One Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope	**—**	—
Net core Tier-One capital	**403,354**	366,567
Other Tier-One capital (Note (i))	**37,768**	36,811
Tier-One capital	**441,122**	403,378
Tier-Two capital:		
Qualified portion of Tier-Two capital instruments issued and share premium	**104,515**	60,842
Surplus allowance for loan impairment	**37,122**	37,255
Qualified portion of non-controlling interests	**634**	1,346
Net capital base	**583,393**	502,821
Total risk-weighted assets	**4,677,713**	4,317,502

Note:

(i) As at 31 December 2018, the Group's other Tier-One capital included preference shares issued by the Bank (Note 49) and non-controlling interests (Note 55).

63 Fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date. This level includes listed equity instruments and debt instruments on exchanges and exchange-traded derivatives.

Level 2: inputs other than quoted prices included within Level 1 are observable for assets or liabilities, either directly or indirectly. A majority of the debt securities classified as level 2 are Renminbi bonds. The fair values of these bonds are determined based on the evaluation results provided by China Central Depository & Clearing Corporate Limited. This level also includes partial bills rediscounting and forfeiting in loans and advances, as well as a majority of over-the-counter derivative contracts. Foreign exchange forward and swaps, Interest rate swap, and foreign exchange options use discount cash flow evaluation method and the evaluation model of which includes Forward Pricing Model, Swap Model and Option Pricing Model. Bills rediscounting and forfeiting use discount cash flow evaluation method to estimate fair value. Input parameters are sourced from the Open market such as Bloomberg and Reuters.

Level 3: inputs for assets or liabilities are based on unobservable parameters. This level includes equity investments and debt instruments with one or more than one significant unobservable parameters. Management determine the fair value through inquiring from counterparties or using the valuation techniques. The model incorporate unobservable parameters such as discount rate and market price volatilities.

The fair value of the Group's financial assets and financial liabilities are determined as follows:

— If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

— If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there were no available observable current market transactions prices for similar instruments, quoted prices from counterparty is used for the valuation, and management performs analysis on these prices. Discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for derivatives other than options, and option pricing models are used for option derivatives.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Market Department, the Financial Institution Department, and the Investment Bank Department are responsible for the fair valuation of financial assets and financial liabilities. The Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items according to the result generated from the valuation process and accounting policies. The Finance and Accounting Department prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

For the year ended 31 December 2018, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value

Financial assets and liabilities not carried at fair value of the Group include cash and balances with central banks, deposits with banks and non-bank financial institutions, placements with and loans to banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers at amortised cost, financial investments at amortised cost, held-to-maturity investments, investments classified as receivables, borrowings from central banks, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Except for the items shown in the tables below, the maturity dates of aforesaid financial assets and liabilities are within a year or are mainly floating interest rates, as a result, their carrying amounts are approximately equal to their fair value.

	Carrying values		Fair values	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Financial assets:				
Financial investment				
— at amortised cost	**778,238**	—	**778,779**	—
Held-to-maturity investments	—	216,586	—	212,530
Investments classified as receivables	—	531,118	—	533,669
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	**2,813**	2,849	**2,752**	2,849
— debt securities issued	**82,091**	94,571	**80,625**	94,131
— subordinated bonds issued	**126,269**	73,728	**126,041**	76,246
— certificates of interbank deposit issued	**341,310**	270,096	**335,475**	265,071

(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value (Continued)

Fair value of financial assets and liabilities above at fair value hierarchy is as follows:

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial investment				
— at amortised cost	**2,109**	**501,890**	**274,780**	**778,779**
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	**—**	**2,752**	**—**	**2,752**
— debt securities issued	**—**	**80,625**	**—**	**80,625**
— subordinated bonds issued	**5,642**	**120,399**	**—**	**126,041**
— certificates of interbank deposit issued	**—**	**335,475**	**—**	**335,475**

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Held-to-maturity investments	897	211,633	—	212,530
Investments classified as receivables	—	92,967	440,702	533,669
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	—	2,849	—	2,849
— debt securities issued	—	94,131	—	94,131
— subordinated bonds issued	5,531	70,715	—	76,246
— certificates of interbank deposit issued	—	265,071	—	265,071

(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 31 December 2018				
Recurring fair value measurements				
Assets				
Loans and advances to customers at fair value through other comprehensive income				
— loans	—	137	—	137
— discounted bills	—	96,383	—	96,383
Financial investments at fair value through profit or loss				
— debt securities	2,815	62,319	6,786	71,920
— investment funds	4,879	178,451	5,846	189,176
— certificates of deposit	—	16,713	—	16,713
— wealth management products	—	—	116	116
— equity instruments	540	—	3,921	4,461
— trust investment plans	—	—	26,486	26,486
Financial investments at fair value through other comprehensive income				
— debt securities	64,506	421,783	4,726	491,015
— certificates of deposit	662	11,982	—	12,644
Financial investments designated at fair value through other comprehensive income				
— equity instruments	295	—	2,412	2,707
Derivative financial assets				
— interest rate derivatives	8	6,098	—	6,106
— currency derivatives	—	24,825	1	24,826
— precious metals derivatives	—	1,048	—	1,048
— credit derivatives	—	11	—	11
Total financial assets measured at fair value	73,705	819,750	50,294	943,749
Liabilities				
Financial liabilities at fair value through profit or loss				
— short position in debt securities	962	—	—	962
Derivative financial liabilities				
— interest rate derivatives	12	5,962	—	5,974
— currency derivatives	—	24,500	1	24,501
— precious metals derivatives	—	1,170	—	1,170
— commodity derivatives	—	1	—	1
Total financial liabilities measured at fair value	974	31,633	1	32,608

(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 31 December 2017				
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
Held for trading financial assets				
— debt securities	3,480	35,248	—	38,728
— investment funds	—	2,000	1	2,001
— certificates of interbank deposit	177	19,223	—	19,400
Financial assets designed at fair value through profit or loss				
— debt securities	198	5,577	—	5,775
Derivative financial assets				
— interest rate derivatives	—	2,552	1	2,553
— currency derivatives	—	62,030	—	62,030
— precious metals derivatives	—	868	—	868
Available-for-sale financial assets				
— debt securities	48,906	420,925	12	469,843
— investment funds	189	119,259	70	119,518
— certificates of deposit	104	40,843	—	40,947
— wealth management products	—	26	—	26
— equity investments	744	—	—	744
Total financial assets measured at fair value	53,798	708,551	84	762,433
Liabilities				
Derivative financial liabilities				
— interest rate derivatives	—	2,311	1	2,312
— currency derivatives	—	62,368	—	62,368
— precious metals derivatives	—	257	—	257
Total financial liabilities measured at fair value	—	64,936	1	64,937

(Amounts in millions of Renminbi unless otherwise stated)

63 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

Notes:

(i) During the current year, there were no significant transfers amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 fair value hierarchy:

	Assets					Liabilities	
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets designated at fair value through other comprehensive income	Derivative financial assets	Total	Derivative financial liabilities	Total
As at 1 January 2018	45,535	4,850	237	1	50,623	(1)	(1)
Total gains or losses							
— in profit or loss	194	(40)	—	1	155	(1)	(1)
— in comprehensive income	—	102	(9)	—	93	—	—
Purchase	8,549	1,700	2,185	—	12,434	—	—
Settlements	(11,105)	(1,926)	—	(1)	(13,032)	1	1
Transfer in/out	—	39	—	—	39	—	—
Exchange effect	(18)	1	(1)	—	(18)	—	—
As at 31 December 2018	43,155	4,726	2,412	1	50,294	(1)	(1)

	Assets							Liabilities	
				Available-for-sale financial assets					
	Trading financial assets Investment funds	Financial assets designed at fair value through profit or loss Debt securities	Derivative financial assets Interest rate derivatives	Debt securities	Investment funds	Equity instruments	Total	Derivative financial liabilities Interest rate derivatives	Total
As at 1 January 2017	1	—	2	13	83	—	99	(2)	(2)
Total gains or losses									
— in profit or loss	—	—	—	—	—	—	—	—	—
Purchase	—	—	—	—	—	—	—	—	—
Settlements	—	—	(1)	—	(8)	—	(9)	1	1
Exchange effect	—	—	—	(1)	(5)	—	(6)	—	—
As at 31 December 2017	1	—	1	12	70	—	84	(1)	(1)

(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties

(a) Relationship of related parties

(i) The Group is controlled by CITIC Corporation Limited (incorporated in mainland China), which owns 65.37% of the Bank's shares. The ultimate parent of the Group is CITIC Group (incorporated in mainland China).

(ii) Related parties of the Group include subsidiaries, joint ventures and associates of CITIC Corporation Limited and CITIC Group. The Bank entered into banking transactions with its subsidiaries at arm's length in the ordinary course of business. These transactions are eliminated on consolidation.

The Bank issued 2,147,469,539 shares to CNTC through private placement on 31 December 2015, representing 4.39% shares of the Bank. A non-executive director designated by CNTC was appointed on 17 March 2016, and the appointment was approved by the CBIRC on 24 June 2016. CNTC is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

In February 2015, Xinhu Zhongbao Co., Ltd. acquired 2,292,579,000 H shares of the Bank through its wholly owned subsidiary, representing 4.68% shares of the Bank. A non-executive director designated by Xinhu Zhongbao Co., Ltd. was appointed on 17 March 2016, and the appointment was approved by the CBRC on 16 November 2016. Xinhu Zhongbao Co., Ltd. is thereafter regarded as the Group's related party, as it has significant influence upon the Bank. On 29 November 2016, Xinhu Zhongbao Co., Ltd., increased its shareholding to 2,320,177,000 H shares of the Bank through its wholly owned subsidiary, representing 4.74% shares of the Bank. In October 2017, Xinhu Zhongbao Co., Ltd. increased its shareholding to 2,446,265,000 H shares of the Bank through its wholly owned subsidiary, representing 4.999% shares of the Bank.

Poly Group acquired 27,216,400 A shares of the Bank through the secondary market, representing 0.06% shares of the Bank. A non-executive director designated by Poly Group was appointed and sent to the bank on 25 May 2018. Poly Group is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

(b) Related party transactions

During the relevant years, the Group entered into transactions with related parties in the ordinary course of its banking businesses including lending, assets transfer (i.e. issuance of asset-backed securities in the form of public placement), wealth management, investment, deposit, settlement and clearing, off-balance sheet transactions, and purchase, sale and leases of property. These banking transactions were conducted under normal commercial terms and conditions and priced at the relevant market rates prevailing at the time of each transaction.

In addition, transactions during the relevant year and the corresponding balances outstanding at the reporting dates are as follows:

	Year ended 31 December 2018		
	Ultimate holding company and affiliates	**Other major equity holders Note (i)**	**Associates and joint ventures**
Profit and loss			
Interest income	**244**	**4**	**63**
Fee and commission income and other operating income	**1,240**	**2**	**—**
Interest expense	**(445)**	**(869)**	**(17)**
Net trading loss	**(32)**	**—**	**—**
Other service fees	**(1,398)**	**—**	**—**

For the year ended 31 December 2018
(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties (Continued)

(b) Related party transactions (Continued)

	Year ended 31 December 2017		
	Ultimate holding company and affiliates	Other major equity holders Note (i)	Associates and joint venturess
Profit and loss			
Interest income	337	46	—
Fee and commission income and other operating income	1,573	—	8
Interest expense	(597)	(407)	(21)
Net trading gain	9	—	11
Other service fees	(940)	—	—

	31 December 2018		
	Ultimate holding company and affiliates	**Other major equity holders Note (i)**	**Associates and joint ventures**
Assets			
Gross loans and advances to customers	**10,645**	**14,363**	—
Less: allowance for impairment losses on loans and advances	**(258)**	**(417)**	—
Loans and advances to customers (net)	**10,387**	**13,946**	—
Deposits with banks and non-bank financial institutions	—	—	**5,364**
Investment in financial assets			
— at fair value through profit or loss	**310**	—	—
— at amortised cost	**4,258**	**4,318**	—
Placements with and loans to banks and non-bank financial institutions	**1,547**	—	—
Derivative financial assets	**60**	—	—
Investments in associates and joint ventures	—	—	**3,881**
Other assets	**10,941**	—	—
Liabilities			
Deposits from banks and non-bank financial institutions	**25,710**	**178**	**1,201**
Derivative financial liabilities	**24**	—	—
Deposits from customers	**37,496**	**41,756**	**17**
Placements from banks and non-bank financial institutions	**2,503**	—	—
Other liabilities	**1,222**	—	—
Off-balance sheet items			
Guarantees and letters of credit	**1,828**	**452**	—
Acceptances	**72**	—	—
Entrusted funds	**45,729**	**6,641**	—
Entrusted loans	**18,514**	**12,540**	—
Funds raised from investors of non-principle guaranteed wealth management products	**707**	—	—
Guarantees received	**52,986**	**9,638**	—
Nominal amount of derivatives	**7,950**	—	—

(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties (Continued)

(b) Related party transactions (Continued)

	31 December 2017		
	Ultimate holding company and affiliates	Other major equity holders Note (i)	Associates and joint ventures
Assets			
Gross loans and advances to customers	16,556	875	—
Less: collectively assessed allowance for impairment losses	(172)	(12)	—
Loans and advances to customers (net)	16,384	863	—
Deposits with banks and non-bank financial institutions	—	—	7,000
Placements with and loans to banks and non-bank financial institutions	418	—	—
Derivative financial assets	14	—	—
Interest receivables	123	1	—
Available for sale financial asset	390	—	—
Investment in associates and joint ventures	—	—	2,341
Other assets	10,104	—	—
Liabilities			
Deposits from banks and non-bank financial institutions	16,205	178	266
Placements from banks and non-bank financial institutions	2,800	—	—
Derivative financial liabilities	6	—	—
Deposits from customers	69,094	17,362	75
Interest payable	107	21	1
Other liabilities	72	—	—
Off-balance sheet items			
Guarantees and letters of credit	1,979	13	—
Bank acceptances	618	190	—
Entrusted funds	7,695	1,500	—
Entrusted loan	2,130	6,446	—
Funds raised from investors of non-principle guaranteed wealth management products	496	—	450
Guarantees received	7,793	867	—
Nominal amount of derivatives	1,710	—	—

Note:

(i) Other major equity holders include CNTC, Xinhu Zhongbao Co., Ltd. and Poly Group.

The amounts disclosed represented those transactions or balances when they were considered as related parties of the Group during the relevant periods. The transactions between the subsidiaries of CNTC/Poly Group and the Group are not significant in 2018.

(Amounts in millions of Renminbi unless otherwise stated)

64 Related parties (Continued)

(c) Key management personnel and their close family members and related companies

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

The Group entered into banking transactions with key management personnel and their close family members and those companies controlled or jointly controlled by them in the normal course of business. Other than those disclosed below, there was no material transactions and balances between the Group and these individuals, their close family members or those companies controlled or jointly controlled by them.

The aggregate amount of relevant loans outstanding as at 31 December 2018 to directors, supervisors and executive officers amounted to RMB0.40 million (as at 31 December 2017: RMB3.37 million).

The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Salaries and other emoluments	**11,751**	13,495
Discretionary bonuses	**24,141**	20,134
Retirement schemes contributions	**2,693**	2,860
Toal	**38,585**	36,489

(d) Supplementary defined contribution plan

The Group has established a supplementary defined contribution plan for its qualified employees which is administered by CITIC Group (Note 42(b)).

(e) Transactions with state-owned entities in the PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred to as "state-owned entities").

Transactions with state-owned entities, including CNTC's indirect subsidiaries and Poly Group's indirect subsidiaries, include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— derivative transactions;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. The pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. The Directors are of opinion that none of these transactions are material related party transactions that require separate disclosure.

(Amounts in millions of Renminbi unless otherwise stated)

65 Structured entities

(a) Unconsolidated structured entities sponsored and managed by third parties

The Group invests in unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 31 December 2018 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the consolidated statement of financial position under which relevant assets are recognised:

	31 December 2018				
	Carrying amount				
	Financial investments at fair value through profit or loss	Financial investments at amortised cost	Financial investments at fair value through other Comprehensive income	Total	Maximum loss exposure
Wealth management product of other banks	116	—	—	116	116
Investment management products managed by securities companies	—	228,502	—	228,502	228,502
Turst management plans	26,486	151,582	—	178,068	178,068
Asset-backed securities	1,289	39,846	61,994	103,129	103,129
Investment funds	189,176	—	—	189,176	189,176
Total	217,067	419,930	61,994	698,991	698,991

	31 December 2017					
	Carrying amount					
	Financial asset at fair value through profit or loss	Held-to-maturity investments	Available for sale financial assets	Investments classified as receviables	Total	Maximum loss exposure
Wealth management products issued by banks	—	—	26	139,020	139,046	139,046
Investment management products managed by securities companies	—	—	—	268,247	268,247	268,247
Trust investment plans	—	—	—	126,794	126,794	126,794
Asset-backed securities	—	34,234	16,877	—	51,111	51,111
Investment funds	2,001	—	119,518	—	121,519	121,519
Total	2,001	34,234	136,421	534,061	706,717	706,717

The maximum exposures to risk in the above wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities managed by securities companies and trust investment funds are the carrying value of the assets held by the Group at the reporting date. The maximum exposures to risk in the asset-backed securities are the amortised cost or fair value of the assets held by the Group at the reporting date in accordance with the line items under which these assets are presented in the consolidated statement of financial position.

65 Structured entities (Continued)

(b) Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed wealth management products. The wealth management products invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these wealth management products, the Group invests, on behalf of its customers, in assets as described in the investment plan related to each wealth management product and receives fee and commission income.

As at 31 December 2018, the total assets invested by these outstanding non-principal guaranteed wealth management products issued by the Group amounted to RMB1,058,907 million (31 December 2017: RMB1,132,676 million).

During the year ended 31 December 2018, the Group's interest in these wealth management products included fee and commission income of RMB2,628 million (2017: RMB5,536 million); interest income of RMB2,271 million (2017: RMB2,258 million) and interest expense of RMB620 million (2017: RMB1,613 million).

As at 31 December 2018, the placements and financial assets held under resale agreements from the Group with these wealth management products sponsored by the Group amounted to RMB63,500 million (31 December 2017: RMB70,488 million), while the placements from these wealth management products to the Group amounted to RMB44,605 million (31 December 2017: RMB25,901 million). During the year ended 31 December 2018, the amount of maximum exposure of the placements and financial assets held under resale agreements from the Group with these wealth management products sponsored by the Group was RMB68,144 million (31 December 2017: RMB72,372 million), and the amount of maximum exposure of the placements from these wealth management products to the Group was RMB13,435 million (31 December 2017: RMB44,233 million). These transactions were conducted under normal business terms and conditions.

As at 31 December 2018, assets of these wealth management products amounting to RMB198,892 million (31 December 2017: RMB202,167 million) were invested in investments in which certain subsidiaries and associates of the CITIC Group acted as trustees.

(c) Principal guaranteed wealth management products sponsored and managed by the Group

Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items in accordance with the Group's accounting policies based on the nature of the assets and liabilities.

66 Transfers of financial assets

The Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements.

These transactions were entered into in the normal course of business by which recognised financial assets were transferred to third parties or structured entities. Transfers of assets may give rise to full or partial de-recognition of the financial assets concerned. On the other hand, where transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Details of the financial assets sold under repurchase agreements are set forth in Note 40. Details of securitisation transactions, structured transfers on assets usufruct and loan transfer transactions conducted by the Group for the year ended 31 December 2018 totally RMB227,518 million (year ended 31 December 2017: RMB175,601 million) are set forth below.

65 Structured entities (Continued)

Securitisation transactions and structured transfers on assets usufruct

The Group enters into securitisation transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognise the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note 4(c) and Note 5.

During the year ended 31 December 2018, the Group entered into securitisation transactions and structured transfers on assets usufruct backed by financial assets transferred with book value before impairment of RMB192,665 million (year ended 31 December 2017: 127,271million). RMB7,197 million of this balance (year ended 31 December 2017: RMB865 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. The Group also recognised other assets and other liabilities of RMB897 million (year ended 31 December 2017: RMB79 million) arising from such continuing involvement. The remaining balance of the loans transferred were qualified for full de-recognition.

Loan transfers

During the year ended 31 December 2018, the Group also through other types of transactions transferred loans of book value before impairment of RMB34,853 million (during the year of 2017: RMB48,330 million), of which RMB34,853 million represented non-performing loans (during the year of 2017: RMB38,733 million). The Group carried out assessment based on the criteria as detailed in Note 4(c) and Note 5(iv) and concluded that these transferred assets qualified for full de-recognition.

67 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

As at 31 December 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(Amounts in millions of Renminbi unless otherwise stated)

68 Statements of financial position and changes in equity of the Bank

Statement of financial position

	31 December 2018	31 December 2017
Assets		
Cash and balances with central banks	**533,393**	564,105
Deposits with banks and non-bank financial institutions	**78,758**	102,139
Precious metals	**4,988**	3,348
Placements with and loans to banks and non-bank financial institutions	**144,364**	149,511
Financial assets at fair value through profit or loss	**—**	59,976
Derivative financial assets	**26,571**	61,795
Financial assets held under resale agreements	**10,790**	54,626
Interest receivables	**—**	31,674
Loans and advances to customers	**3,285,963**	2,886,685
Financial investments		
— at fair value through profit or loss	**293,542**	—
— at amortised cost	**777,883**	—
— at fair value through other comprehensive income	**449,350**	—
— designated at fair value through other comprehensive income	**2,242**	—
Available-for-sale financial assets	**—**	579,623
Held-to-maturity investments	**—**	216,586
Investments classified as receivables	**—**	531,118
Investments in subsidiaries and joint ventures	**25,008**	23,445
Property, plant and equipment	**20,956**	20,594
Intangible assets	**1,301**	1,135
Deferred tax assets	**22,458**	21,605
Other assets	**33,108**	51,249
Total assets	**5,710,675**	5,359,214
Liabilities		
Borrowings from central banks	**286,350**	237,500
Deposits from banks and non-bank financial institutions	**782,768**	799,259
Placements from banks and non-bank financial institutions	**71,482**	34,088
Financial liabilities at fair value through profit or loss	**962**	—
Derivative financial liabilities	**25,784**	61,236
Financial assets sold under repurchase agreements	**120,095**	134,384
Deposits from customers	**3,397,318**	3,181,070
Accrued staff costs	**9,508**	8,024
Taxes payable	**4,086**	8,153
Interest payable	**—**	38,395
Provisions	**4,944**	796
Debt securities issued	**541,053**	430,176
Other liabilities	**44,800**	38,131
Total liabilities	**5,289,150**	4,971,212
Equity		
Share capital	**48,935**	48,935
Preference shares	**34,955**	34,955
Capital reserve	**61,359**	61,359
Other comprehensive income	**5,167**	(9,782)
Surplus reserve	**34,450**	31,183
General reserve	**73,370**	73,370
Retained earnings	**163,289**	147,982
Total equity	**421,525**	388,002
Total liabilities and equity	**5,710,675**	5,359,214

(Amounts in millions of Renminbi unless otherwise stated)

68 Statements of financial position and changes in equity of the Bank (Continued)

Statement of changes in equity

	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 31 December 2017	48,935	34,955	61,359	(9,782)	31,183	73,370	147,982	388,002
Changes in accounting policy	—	—	—	4,478	(939)	—	(8,442)	(4,903)
As at 1 January 2018	48,935	34,955	61,359	(5,304)	30,244	73,370	139,540	383,099
(i) Net profit	—	—	—	—	—	—	42,057	42,057
(ii) Other comprehensive income	—	—	—	10,471	—	—	—	10,471
Total comprehensive income	—	—	—	10,471	—	—	42,057	52,528
(iii) Profit appropriations								
— Appropriations to surplus reserve	—	—	—	—	4,206	—	(4,206)	—
— Dividend distribution to ordinary shareholders of the bank	—	—	—	—	—	—	(12,772)	(12,772)
— Dividend distribution to preference shareholders of the bank	—	—	—	—	—	—	(1,330)	(1,330)
As at 31 December 2018	48,935	34,955	61,359	5,167	34,450	73,370	163,289	421,525

	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2017	48,935	34,955	61,359	(1,737)	27,263	73,370	124,557	368,702
(i) Net profit	—	—	—	—	—	—	39,196	39,196
(ii) Other comprehensive income	—	—	—	(8,045)	—	—	—	(8,045)
Total comprehensive income	—	—	—	(8,045)	—	—	39,196	31,151
(iii) Profit appropriations								
— Appropriations to surplus reserve	—	—	—	—	3,920	—	(3,920)	—
— Dividend distribution to ordinary shareholders of the bank	—	—	—	—	—	—	(10,521)	(10,521)
— Dividend distribution to preference shareholders of the bank	—	—	—	—	—	—	(1,330)	(1,330)
As at 31 December 2017	48,935	34,955	61,359	(9,782)	31,183	73,370	147,982	388,002

(Amounts in millions of Renminbi unless otherwise stated)

69 Benefits and interests of directors and supervisors

(a) Directors and supervisors' emoluments

The remuneration of the Bank's director and supervisor is set out below:

For the year ended 31 December 2018:

	Emoluments paid or receivable in respect of services as director or supervisor of the Group							Emoluments paid or receivable in respect of director or supervisor's other services in connection with the management of the affairs of the Group	
Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Allowances and benefits in kind (note (vii)) RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director and supervisor RMB'000	RMB'000	Total RMB'000
Executive directors									
Li Qingping Note (i)	–	–	–	–	–	–	–	–	–
Fang Heying	–	600	652	–	132	184	–	–	1,568
Non-executive directors									
Cao Guoqiang Note (i)(iv)	–	233	229	–	104	63	–	–	629
Huang Fang Note (i)	–	–	–	–	–	–	–	–	–
Wan Liming Note (i)	–	–	–	–	–	–	–	–	–
Independent non-executive directors									
He Cao	300	–	–	–	–	–	–	–	300
Chen Lihua	300	–	–	–	–	–	–	–	300
Qian Jun	300	–	–	–	–	–	–	–	300
Ying Liji	82	–	–	–	–	–	–	–	82
Supervisors									
Liu Cheng	–	467	451	–	47	99	–	–	1,064
Deng Changqing Note (i)	–	–	–	–	–	–	–	–	–
Wang Xiuhong	300	–	–	–	–	–	–	–	300
Jia Xiangsen	300	–	–	–	–	–	–	–	300
Deng Wei	300	–	–	–	–	–	–	–	300
Cheng Pusheng	–	360	2,373	–	164	178	–	–	3,075
Chen Panwu	–	440	2,327	–	179	184	–	–	3,130
Zeng Yufang	–	330	2,457	–	117	329	–	–	3,233
Former Directors and Supervisors resigned in 2018									
Chang Zhenming Note (ii)	–	–	–	–	–	–	–	–	–
Shu Yang Note (iii)	225	–	–	–	–	–	–	–	–
Wu Xiaoqing Note (v)	225	–	–	–	–	–	–	–	225
Wang Lianzhang Note (v)	–	–	–	–	–	–	–	–	225
Zhu Gaoming Note (v)	–	–	–	–	–	–	–	–	–
Sun Desheng	–	900	1,124	–	222	209	–	–	2,455

(Amounts in millions of Renminbi unless otherwise stated)

69 Benefits and interests of directors and supervisors (Continued)

(a) Directors and supervisors' emoluments (Continued)

For the year ended 31 December 2017

	Emoluments paid or receivable in respect of services as director or supervisor of the Group								
Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Allowances and benefits in kind (note (vii)) RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director and supervisor RMB'000	Emoluments paid or receivable in respect of director or supervisor's other services in connection with the management of the affairs of the Group RMB'000	Total RMB'000
Executive directors									
Li Qingping Note (i)	–	–	–	–	–	–	–	–	–
Sun Deshun	–	900	1,112	–	351	233	–	–	2,596
Non-executive directors									
Zhu Gaoming	–	–	–	–	–	–	–	–	–
Huang Fang	–	–	–	–	–	–	–	–	–
Wan Liming	–	–	–	–	–	–	–	–	–
Chang Zhenming	–	–	–	–	–	–	–	–	–
Independent non-executive directors									
Wu Xiaoqing	300	–	–	–	–	–	–	–	300
Wong Luen Cheung Andrew	300	–	–	–	–	–	–	–	300
He Cao	300	–	–	–	–	–	–	–	300
Chen Lihua	300	–	–	–	–	–	–	–	300
Qian Jun	300	–	–	–	–	–	–	–	300
Supervisors									
Cao Guoqiang	–	700	658	–	297	219	–	–	1,874
Wang Xiuhong	300	–	–	–	–	–	–	–	300
Jia Xiangsen	300	–	–	–	–	–	–	–	300
Zheng Wei	300	–	–	–	–	–	–	–	300
Cheng Pusheng	–	340	2,418	–	261	202	–	–	3,221
Chen Panwu	–	430	2,191	–	281	211	–	–	3,113
Zeng Yufang	–	320	2,344	–	94	340	–	–	3,098
Shu Yang	–	–	–	–	–	–	–	–	–
Former Directors and Supervisors resigned in 2017									
Zhu Xiaohuang Note (vii)	–	–	–	–	–	–	–	–	–
Wen Shuping Note (viii)	–	145	806	–	24	47	–	–	1,022
Ma Haiqing Note (viii)	–	70	539	–	85	68	–	–	762

69 Benefits and interests of directors and supervisors (Continued)

(a) Directors and supervisors' emoluments (Continued)

Notes:

(i) Mrs. Li Qingping, Mr. Cao Guoqiang, Mrs. Huang Fang, Mr.Wan Liming, and Mr. Deng Changqing did not receive any eTwo of the four directors are delegated by CITIC Limited and CITIC Group ("parent compaies"). Their emoluments were paid by the group. The other two directors and the supervisor are delegated respectively by Xinhu Zhongbao Co., Ltd, CNTC and Poly Group and provide service to both the parent company and the bank. Their emolument allocation are not disclosed due to the difficulty to differentiate the services provided by the four directors and the supervisor.

(ii) Mr. Chang Zhenmig resigned in January, 2018.

(iii) Mr. Shu Yang resigned in Feburary, 2018.

(iv) Mr.Cao Guoqiang resigned in March, 2018.

(v) Mrs. Wu Xiaoqing, Mr. Wang Lianzhang, and Mr. Zhu Gaoming resigned in September, 2018.

(vi) Mr. Sun Deshun resigned in Feburary, 2018.

(vii) Mr. Zhu Xiaohuang resigned in March, 2017.

(viii) Mrs Wen Shuping and Mr. Ma Haiqing resigned in September, 2017.

(b) Other benefits and interests

No direct or indirect retirement benefits and termination benefits were paid to directors as at 31 December 2018 (as at December 2017: Nil).

For the year ended 31 December 2018 and 31 December 2017, the balance of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors was not significant.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year 2018 (2017: Nil).

70 Events after the reporting period

(a) On 4 March 2019, the Bank issued a total of 400,000,000 A share convertible corporate bonds ("A Share Convertible Bonds"), with a nominal value of RMB100 each and an aggregate value amounting to RMB40 billion. The A Share Convertible Bonds was issued at nominal value and the initial conversion price shall be RMB7.45 per share. The A Share Convertible Bonds have a term of six years from the date of the issuance, which commences from 4 March 2019 and ends on 3 March 2025.

(b) On 26 March 2019, a public issuance of perpetual capital securities with no more than RMB40 billion or equivalent foreign currency in China and foreign markets is approved by the Board of Directors. As at the report date, the relevant issuance is subject to the approval from regulators.

To the Shareholders of China CITIC Bank Corporation Limited

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

Opinion

What we have audited

The consolidated financial statements of China CITIC Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 1 to 206, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Measurement of expected credit losses for loans and advances to customers and financial investments
- Consolidation of structured entities – Non-principal guaranteed wealth management products
- De-recognition of financial assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments	
Refer to Note 4(c), Note 5(i), Note 22 and Note 23 to the consolidated financial statements. As at 31 December 2019, gross loans and advances to customers and accrued interest included for the purpose of expected credit loss assessment, as presented in the CITIC Bank's consolidated balance sheet, amounted to RMB4,001,176 million, for which the management recognized an impairment allowance of RMB115,956 million; total financial investments and accrued interest included for the purpose of expected credit loss assessment amounted to RMB1,559,790 million, for which the management recognized an impairment allowance of RMB8,407 million. The balances of loss allowances for the loans and advances to customers and financial investments represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under International Financial Reporting Standard 9: Financial Instruments expected credit losses models.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of ECL for loans and advances to customers, and financial investments, primarily including: • Governance over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on-going monitoring and optimization of the models; • Internal controls relating to significant management judgments and assumptions, including the review and approval of model selections, parameters estimation, identification of significant increase in credit risk, defaults or credit-impaired loans, and forward-looking measurement; • Internal controls over the accuracy and completeness of key inputs used by the models; • Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances and financial investments in stage 3; • Internal controls over the information systems for model-based measurement.

Key Audit Matter	How our audit addressed the Key Audit Matter

Measurement of expected credit losses for loans and advances to customers and financial investments (continued)

The management assesses whether the credit risk of loans and advances to customers and financial investments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances and financial investments classified into stages 1 and 2, and all personal loans, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and advances and financial investments in stage 3, the management assesses loss allowance by estimating the cash flows from the loans.

The measurement models of ECL involves significant management judgments and assumptions, primarily including the following:

(1) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

The substantive procedures we preformed primarily included:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We tested whether or not the measurement models reflect the modelling methodologies documented by the management on a sample basis.

We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans.

For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments (continued)	
(2) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (3) Management overlay adjustments due to significant uncertain factors not covered in the models; (4) The estimated future cash flows for corporate loans and advances and financial investments in stage 3. The Group established governance processes and controls for the measurement of ECL. For measuring ECL, the management adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the exposures of the loans and advances to customers and financial investments, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also performed walk-through testing and reconciliation of the transmission of major data inputs between the models' measurement engines and the information systems, to verify their accuracy and completeness. For corporate loans and advances and financial investments in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, and financial investments, the models, key parameters, significant judgements and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of Structured Entities – Non-principal Guaranteed Wealth Management Products	
Refer to Note 4(a), Note 5(vii) and Note 59 to the consolidated financial statements. As at 31 December 2019, non-principal guaranteed wealth management products issued and managed by the group involved structured entities, and amounts for structured entities included in the consolidation scope and those not included were disclosed in Note 5 (vii)and Note 59 respectively. Management's decision on whether or not to consolidate structured entities was based on an assessment of the Group's power, its variable returns and the ability to exercise its power to influence the variable returns from these structured entities. We focused on the consolidation assessment and judgment made by management involving the structured entities for non-principal guaranteed WMPs during our audit, as whether or not to consolidate these entities involved significant judgment.	We evaluated and tested the design and operating effectiveness of management's relevant controls over the consolidation of structured entities for non-principal guaranteed WMPs. These controls primarily included the review and approval of the contractual terms, the results in variable return calculations, and the consolidation assessment conclusions for these structured entities. We selected samples of structured entities for non-principal guaranteed WMPs and performed the following tests: • assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities; • performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; • assessed whether the Group acted as a principal or an agent through analysis of the scope of the Group's decision-making authority, its remuneration entitlement, other interests the Group held, and the rights held by other parties. • evaluated and examined on the appropriateness of disclosures relating to structured entities in the consolidated financial statements. Based on the procedures performed above, we found management's judgement relating to the consolidation and disclosure of structured entities for non-principal guaranteed WMPs acceptable in all material respects.

Key Audit Matter	How our audit addressed the Key Audit Matter
De-recognition of Financial Assets	
Refer to Note 4 (c), Note 5 (vi) and Note 60 to the consolidated financial statements. During the year ended 31 December 2019, the Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, and transfers of non-performing loans. Management analysed the Group's contractual rights and obligations in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred by using models to determine whether the de-recognition criteria were met. Where necessary, the Group assessed whether it had relinquished its control over the transferred financial assets to determine whether the de-recognition criteria were met. The de-recognition assessment relating to the transfer of financial assets involved significant judgment from management, and as such, we focused our audit on the de-recognition of these financial assets.	We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of financial assets, including the review and approval of the structure designs and contractual terms of the transactions, the approval of models for testing the transfer of risks and rewards of ownership and the key parameters and assumptions used in the models, as well as the review and approval of management's assessment results. We selected samples and read through transaction agreements to assess the contractual rights and obligations of the Group, and whether the Group transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows, to independent third parties. We also assessed the appropriateness of the models, the parameters and assumptions, the discount rates, and the variability factors. We also tested the mathematical accuracy of the calculations. For financial assets where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, we analysed whether the Group had relinquished its controls over these financial assets, and if the Group had a continuing involvement in these transferred financial assets. Based on the procedures performed above, we found management's assessment over de-recognition of transferred financial assets acceptable.

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of 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 Directors and Those Charged with Governance 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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. We report our opinion 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 HKSAs 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 HKSAs, we exercise professional judgment 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.

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2020

Chapter 11 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Interest income		**268,498**	241,933
Interest expense		**(141,227)**	(129,021)
Net interest income	6	**127,271**	112,912
Fee and commission income		**52,284**	42,599
Fee and commission expense		**(5,900)**	(5,591)
Net fee and commission income	7	**46,384**	37,008
Net trading gain	8	**5,229**	6,519
Net gain from investment securities	9	**8,629**	9,046
Net hedging loss	10	**(2)**	(1)
Other operating income		**370**	282
Operating income		**187,881**	165,766
Operating expenses	11	**(54,168)**	(52,600)
Operating profit before impairment		**133,713**	113,166
Credit impairment losses	12	**(76,679)**	(57,886)
Impairment losses on other assets	13	**(576)**	(347)
Revaluation gain on investment properties		**(15)**	35
Share of loss of associates and joint ventures		**102**	(642)
Profit before tax		**56,545**	54,326
Income tax expense	14	**(7,551)**	(8,950)
Profit for the Year		**48,994**	45,376
Net profit attributable to:			
Equity holders of the Bank		**48,015**	44,513
Non-controlling interests		**979**	863
Profit for the year		**48,994**	45,376
Other comprehensive income, net of tax:	15		
Items that will not be reclassified to profit or loss (net of tax):			
— Net changes on the measurement of defined benefit plan		**—**	7
— Fair value changes on financial investments designated at fair value through other comprehensive income		**(789)**	11
— Fair value changes on transfers from owner-occupied property to investment property		**—**	65
Items that may be reclassified subsequently to profit or loss (net of tax):			
— Other comprehensive income transferable to profit or loss under equity method		**—**	(10)
— Fair value changes on financial assets at fair value through other comprehensive income		**1,714**	10,040
— Impairment allowance on financial assets at fair value through other comprehensive income		**685**	140
— Exchange difference on translating foreign operations		**592**	2,209
Other comprehensive income, net of tax	15	**2,202**	12,462
Total comprehensive income for the year Total		**51,196**	57,838
Total comprehensive income attribute to:			
Equity holders of the Bank		**50,107**	57,022
Non-controlling interests		**1,089**	816
Earnings per share attributable to the ordinary shareholders of the Bank			
Basic earnings per share (RMB)	16	**0.95**	0.88
Diluted earnings per share (RMB)		**0.89**	0.88

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

Chapter 11 Consolidated Statement of Financial Position

As at 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	**31 December 2019**	31 December 2018
Assets			
Cash and balances with central banks	17	**463,158**	538,708
Deposits with banks and non-bank financial institutions	18	**121,297**	99,153
Precious metals		**6,865**	4,988
Placements with and loans to banks and non-bank financial institutions	19	**204,547**	176,160
Derivative financial assets	20	**17,117**	31,991
Financial assets held under resale agreements	21	**9,954**	10,790
Loans and advances to customers	22	**3,892,602**	3,515,650
Financial investments	23	**1,873,596**	1,600,163
— at fair value through profit or loss	23	**317,546**	308,872
— at amortised cost		**924,234**	778,238
— at fair value through other comprehensive income		**628,780**	510,346
— designated at fair value through other comprehensive income		**3,036**	2,707
Investments in associates and joint ventures	24	**3,672**	3,881
Investment properties	26	**426**	443
Property, plant and equipment	27	**22,372**	21,385
Right-of-use assets	28	**12,390**	—
Intangible assets		**1,874**	1,879
Goodwill	29	**912**	896
Deferred tax assets	30	**32,095**	23,174
Other assets	31	**87,556**	37,453
Total assets		**6,750,433**	6,066,714
Liabilities			
Borrowings from central banks		**240,298**	286,430
Deposits from banks and non-bank financial institutions	33	**951,122**	782,264
Placements from banks and non-bank financial institutions	34	**92,539**	115,358
Financial liabilities at fair value through profit or loss		**847**	962
Derivative financial liabilities	20	**16,836**	31,646
Financial assets sold under repurchase agreements	35	**111,838**	120,315
Deposits from customers	36	**4,073,258**	3,649,611
Accrued staff costs	37	**12,132**	10,549
Taxes payable	38	**8,865**	4,920
Debt securities issued	39	**650,274**	552,483
Lease liabilities		**10,896**	—
Provisions	40	**6,116**	5,013
Deferred tax liabilities	30	**10**	16
Other liabilities	41	**42,878**	54,061
Total liabilities		**6,217,909**	5,613,628

As at 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	31 December 2019	31 December 2018
Equity			
Share capital	42	**48,935**	48,935
Other equity instruments	43	**78,083**	34,955
Capital reserve	44	**58,977**	58,977
Other comprehensive income	45	**7,361**	5,269
Surplus reserve	46	**39,009**	34,450
General reserve	47	**81,535**	74,255
Retained earnings	48	**203,411**	179,820
Total equity attributable to equity holders of the Bank		**517,311**	436,661
Non-controlling interests	49	**15,213**	16,425
Total equity		**532,524**	453,086
Total liabilities and equity		**6,750,433**	6,066,714

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

Approved and authorised for issue by the board of directors on Mar 26th 2020.

Li Qingping	**Fang Heying**	**Li Peixia**	**Company stamp**
Legal Representative (Chairperson)	*Executive Director, President and Chief Financial Officer*	*General Manager of Finance Department*	

Chapter 11 Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Other Equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary equity holders	Other equity instruments holders	Total equity
As at 31 December 2018/1 January 2019		48,935	34,955	58,977	5,269	34,450	74,255	179,820	7,933	8,492	453,086
(i) Net profit		–	–	–	–	–	–	48,015	509	470	48,994
(ii) Other comprehensive income	15	–	–	–	2,092	–	–	–	110	–	2,202
Total comprehensive income		–	–	–	2,092	–	–	48,015	619	470	51,196
(iii) Issuing of other equity instruments											
– Convertible corporate bonds		–	3,135	–	–	–	–	–	–	–	3,135
– Undated capital bonds		–	39,993	–	–	–	–	–	–	–	39,993
– Redemption of other equity instruments		–	–	–	–	–	–	–	–	(1,825)	(1,825)
(iv) Profit appropriations											
– Appropriations to surplus reserve	46	–	–	–	–	4,559	–	(4,559)	–	–	–
– Appropriations to general reserve	47	–	–	–	–	–	7,280	(7,280)	–	–	–
– Dividend distribution to ordinary shareholders of the Bank	48	–	–	–	–	–	–	(11,255)	–	–	(11,255)
– Dividend distribution to non-controlling interests		–	–	–	–	–	–	–	(6)	–	(6)
– Dividend distribution to preference shareholders holders	48	–	–	–	–	–	–	(1,330)	–	–	(1,330)
– Dividend distribution to other equity instruments holders	49	–	–	–	–	–	–	–	–	(470)	(470)
As at 31 December 2019		48,935	78,083	58,977	7,361	39,009	81,535	203,411	8,546	6,667	532,524

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary equity holders	Other equity instruments holders	Total equity
As at 31 December 2017		48,935	34,955	58,977	(11,784)	31,183	74,251	163,121	7,646	5,149	412,433
Change in accounting policy	3(c)	–	–	–	4,544	(939)	–	(9,502)	(235)	–	(6,132)
As at 1 January 2018		48,935	34,955	58,977	(7,240)	30,244	74,251	153,619	7,411	5,149	406,301
(i) Net profit		–	–	–	–	–	–	44,513	574	289	45,376
(ii) Other comprehensive income	15	–	–	–	12,509	–	–	–	(47)	–	12,462
Total comprehensive income		–	–	–	12,509	–	–	44,513	527	289	57,838
(iii) Contribution by non-controlling shareholders	49	–	–	–	–	–	–	–	–	3,343	3,343
(iv) Profit appropriations											
– Appropriations to surplus reserve	46	–	–	–	–	4,206	–	(4,206)	–	–	–
– Appropriations to general reserve	47	–	–	–	–	–	4	(4)	–	–	–
– Dividend distribution to ordinary shareholders of the Bank	48	–	–	–	–	–	–	(12,772)	–	–	(12,772)
– Dividend distribution to preference shareholders of the Bank	48	–	–	–	–	–	–	(1,330)	–	–	(1,330)
– Dividend distribution to non-controlling interests		–	–	–	–	–	–	–	(5)	–	(5)
– Dividend distribution to other equity instruments holders	49	–	–	–	–	–	–	–	–	(289)	(289)
As at 31 December 2018		48,935	34,955	58,977	5,269	34,450	74,255	179,820	7,933	8,492	453,086

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

Chapter 11 Consolidated Statement of Cash Flows

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

	Year ended 31 December	
	2019	2018
Operating activities		
Profit before tax	**56,545**	54,326
Adjustments for:		
— revaluation gain on investments, derivatives and investment properties	**373**	2,825
— investment gain	**(7,829)**	(7,897)
— net loss gain on disposal of property, plant and equipment, intangible assets and other assets	**(3)**	(363)
— unrealised foreign exchange (gain)/loss	**(323)**	8
— credit impairment losses	**76,679**	57,886
— impairment losses on other assets	**576**	347
— depreciation and amortisation	**2,821**	2,942
— interest expense on debt securities issued	**22,186**	22,416
— dividend income from equity investment	**(65)**	(320)
— depreciation of right-of-use assets and interest expense on lease liabilities	**3,793**	—
— income tax paid	**(13,503)**	(15,875)
Subtotal	**141,250**	116,295
Changes in operating assets and liabilities:		
Decrease in balances with central banks	**44,865**	68,403
(Increase)/decrease in deposits with banks and non-bank financial institutions	**(70,522)**	3,159
(Increase)/decrease in placements with and loans to banks and non-bank financial institutions	**(18,513)**	42,501
Decrease in investments in financial assets held for trading purposes	**29,279**	17,850
Decrease in financial assets held under resale agreements	**788**	43,837
Increase in loans and advances to customers non-bank financial institutions	**(440,025)**	(450,950)
Increase/(decrease) in deposits from banks and non-bank financial institutions	**170,271**	(19,990)
(Decrease)/increase in borrowings from central banks	**(44,840)**	43,980
(Decrease)/increase in placements from banks and non-bank financial institutions	**(23,227)**	36,480
(Decrease)/increase in financial liabilities at fair value through profit or loss	**(243)**	958
Decrease in financial assets sold under repurchase agreements	**(8,467)**	(14,229)
Increase in deposits from customers	**417,812**	196,044
(Increase)/decrease in other operating assets	**(71,776)**	6,721
(Decrease)/increase in other operating liabilities	**(9,683)**	11,257
Subtotal	**(24,281)**	(13,979)
Net cash flows from operating activities	**116,969**	102,316

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Investing activities			
Proceeds from disposal and redemption of investments		**1,940,528**	1,396,004
Proceeds from disposal of property, plant and equipment, land use rights, and other assets		**399**	1,154
Cash received from equity investment income		**373**	320
Payments on acquisition of investments		**(2,190,629)**	(1,535,459)
Payments on acquisition of property, plant and equipment, land use rights and other assets		**(4,056)**	(4,754)
Net cash paid for acquisition of associates and joint ventures	24	**—**	(1,838)
Net cash received from disposal of associates		**321**	—
Net cash flows used in investing activities		**(253,064)**	(144,573)
Financing activities			
Cash received from debt securities issued	39	**586,270**	922,161
Cash received from other equity instruments issued	49	**39,993**	3,343
Cash paid for redemption of debt securities issued		**(486,792)**	(815,230)
Interest paid on debt securities issued		**(22,829)**	(21,836)
Dividends paid		**(13,052)**	(14,396)
Principle and interest paid for leasing liabilities		**(3,011)**	—
Net cash flows from financing activities		**100,579**	74,042
Net increase/(decrease) in cash and cash equivalents		**(35,516)**	31,785
Cash and cash equivalents as at 1 January		**376,009**	337,915
Effect of exchange rate changes on cash and cash equivalents		**1,956**	6,309
Cash and cash equivalents as at 31 December	50	**342,449**	376,009
Cash flows from operating activities include:			
Interest received		**272,968**	220,101
Interest paid		**(119,236)**	(113,272)

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

1 Corporate information

China CITIC Bank Corporation Limited (the "Bank" or "CNCB") is a joint stock company incorporated in the People's Republic of China (the "PRC" or "Mainland China") on 31 December 2006. Headquartered in Beijing, the Bank's registered office is located at No.9 Chaoyangmen Beidajie, Dongcheng District, Beijing, China. The Bank listed its A shares and H shares on Shanghai Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited, respectively on 27 April 2007.

The Bank operates under financial services certificate No. B0006H111000001 issued by the China Banking Insurance Regulatory Commission (the "CBIRC", originally named China Banking Regulatory Commission), and unified social credit code No. 91110000101690725E issued by the State Administration of Industry and Commerce of the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, finance leasing and other non-banking financial services.

As at 31 December 2019, the Group mainly operates in Mainland China with branches covering 31 provinces, autonomous regions and municipalities. In addition, the Bank's subsidiaries have operations in Mainland China, the Hong Kong Special Administrative Region of PRC ("Hong Kong") and other overseas countries and regions.

For the purpose of these consolidated financial statements, Mainland China refers to the PRC excluding Hong Kong, the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The consolidated financial statements were approved by the Board of Directors of the Bank on 26 March 2020.

2 Basis of preparation

These consolidated financial statements have been prepared on a going concern basis. The consolidated financial statements for the year ended 31 December 2019 comprise the Bank and its subsidiaries, associates and joint ventures.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Functional currency and presentation currency

The functional currency of the Bank is Renminbi ("RMB"). The functional currencies of overseas subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into Renminbi for the preparation of the consolidated financial statements according to Note 4 (b)(ii). The consolidated financial statements of the Group are presented in Renminbi and, unless otherwise stated, expressed in millions of Renminbi.

(Amounts in millions of Renminbi unless otherwise stated)

3 Principle accounting policies

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and at fair value through other comprehensive income, and investment properties, which are carried at fair value.

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 5.

(a) Standards and amendments effective in 2019 relevant to and adopted by the Group

In the current interim period, the Group has adopted the following International Financial Reporting Standards ("IFRSs") and amendments issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current year. Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2019.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IFRS 3, IFRS 11, IAS 12 and IFRS 11, IAS 12 and IAS 23	IASB Annual Improvements to IFRSs (2015 — 2017 Cycle)
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19	Employee Benefits' Regarding Plan Amendment, Curtailment or Settlement

The new accounting policies of IFRS 16 – Leases and their impacts are disclosed in Note 3 (c) Changes in accounting policies. The adoption of the other new standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(b) Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and revised IFRSs and IFRS interpretations that have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee but are not yet effective.

		Effective for the year beginning on/after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The effective date has been postponed.

3 Principle accounting policies (Continued)

(b) Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group (Continued)

Amendments to IFRS 10 and IAS 28- Sale or contribution of assets between an investor and its associate or joint venture.

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

(c) Changes in accounting policies

The Group adopted IFRS 16 Leases (hereinafter referred to as the "new leasing standard"), with the first implementation date on 1 January 2019. This represents a change in accounting policies and adjustments to the relevant amounts have been recognised in the financial statements.

According to the transition requirements of the new leasing standard, the Group did not restate the information for the comparative period. Therefore, the reclassifications and adjustments made due to the adoption of the new leasing standard are recognised in the balance sheet as at 1 January 2019, and no restatement has been made to the comparative financial statements as at 31 December 2018.

As described above, the Group only makes relevant disclosures on the current period in Note 28.

The implementation of the new leasing standard also leads to changes in the lease accounting policies of the Group as a lessee, and the specific accounting policies applicable to lessee in the current period under the new leasing standard are as follows.

3 Principle accounting policies (Continued)

(c) Changes in significant accounting policies (Continued)

Lease

A lease is a contract under which the lessor conveys to the lessee the right to use an asset for a period of time in exchange for consideration.

The Group as the lessee

The Group recognises the right-of-use assets on the commencement date of the lease term and recognises the lease liability at the present value of the lease payments that have not been paid yet. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The lease payments include fixed payments and payments to be made in the event that it is reasonably determined that the purchase option will be exercised or the lease option is terminated. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used.

The Group's right-of-use assets include leased buildings, land use right, equipments, vehicles and others. The right-of-use assets are initially measured at cost, which includes the initial measurement of the lease liability, the lease payments paid on or before the lease commencement date, and the initial direct costs, less any lease incentives received. If the Group can reasonably expect to obtain the ownership of the leased asset at the expiration of the lease term, it is depreciated over the remaining useful life of the leased asset on a straight-line basis; if it is not possible to reasonably determine whether the ownership of the leased asset can be obtained at the expiration of the lease term, it is depreciated over the shorter period of the lease term and the remaining useful life of the leased assets on a straight-line basis. When the recoverable amount is lower than the carrying amount of an right-of-use asset, the Group writes down the carrying amount to the recoverable amount.

For short-term leases with a lease term of no more than 12 months and leases of assets with low values when new, the Group chooses not to recognise the right-of-use assets and lease liabilities. Instead, it recognises in each period the relevant rental payments in profit or loss or relevant asset costs on a straight-line basis over the lease term.

Land use rights are amortised on a straight-line basis over the respective periods of grant. 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 buildings and recorded in property, plant and equipment.

Impairment loss on land use rights is accounted for in accordance with the accounting policies as set out in Note 4 (l).

3 Principle accounting policies (Continued)

(c) Changes in significant accounting policies (Continued)

Lease (Continued)

The Group as the lessor

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(i) Finance leases

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receipts and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment"), is included in "loans and advances to customers" on consolidated statement of financial position as a finance lease receivable. At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable. The difference between the net lease investment and the aggregate of their present value is recognised as unearned finance income which is included in "loans and advances to customers" as well. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses are accounted in accordance with the accounting policies as set out in Note 4 (c)(iii).

(ii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 4 (g) except where the asset is classified as an investment property. Impairment losses are accounted in accordance with the accounting policies as set out in Note 4 (l). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 4 (s)(iv).

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

3 Principle accounting policies (Continued)

(c) Changes in significant accounting policies (Continued)

(i) Adjustments due to adoption of the new leasing standard

According to the relevant provisions of the new leasing standard, the Group adjusted relevant items in the beginning financial statements as at 1 January 2019 to reflect the cumulative impact of the initial adoption of the standards.

The changes in accounting policies and why	The line items affected	Amount affected 1 January 2019
For operating lease contracts that existed before the initial adoption of the new leasing standard, the Group has adopted different methods based on the remaining lease terms: If the remaining lease term is longer than one year, the Group recognises a lease liability based on the remaining lease payments and the incremental borrowing rate on 1 January 2019, and measures the right-of-use asset at an amount equal to the lease liability, adjusted by any prepaid lease payments. If the remaining lease term is less than one year, the Group adopts a simplified method and does not recognise a right-of-use asset or a lease liability, with no significant impact on the financial statements. For operating lease contracts that existed prior to the initial adoption of the new leasing standard where the underlying assets are of low values, the Group adopts a simplified approach and does not recognise the right-of-use assets and lease liabilities, with no significant impact on the financial statements.	Right-of-use assets Lease liabilities Other assets	13,311 11,120 (2,191)

As at 1 January 2019, for the purpose of measuring lease liabilities, the Group adopted the same discount rate for lease contracts with similar characteristics. The incremental borrowing rates used were from 4.57% to 4.76%.

As at 1 January 2019, the Group adjusted unsettled minimum operating lease payments disclosed under the original leasing standard to lease liabilities under the new leasing standard. The reconciliation is as follows:

	2019
Operating lease commitments disclosed as at 31 December 2018	12,934
Discounted using the lessee's incremental borrowing rate of at the date of initial application	11,304
Add: finance lease liabilities recognised as at 31 December 2018	—
(Less): short-term leases recognised on a straight-line basis as expense	(183)
(Less): low-value leases recognised on a straight-line basis as expense	(1)
Lease liability recognised as at 1 January 2019	11,120

4 Summary of significant accounting policies

(a) Consolidated financial statements

(i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities assumed are measured based on their carrying amounts in the financial statements of the acquiree at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total face value of shares issued) is adjusted against share premium in the capital reserve with any excess adjusted against retained earnings. The issuance costs of equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. The combination date is the date on which one combining enterprise obtains control of other combining enterprises.

(ii) Business combinations not involving entities under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before the business combination. Where (i) the aggregate of the acquisition date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (ii) the acquirer's interest in the acquisition date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (Note 4 (j)). If (i) is less than (ii), the difference is recognised in the consolidated statement of profit or loss for the current period. The issuance costs of equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed as incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in the consolidated statement of profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquire will be reclassified to profit or loss.

(iii) Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Bank and its subsidiaries, as well as structured entities controlled by the Group. 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. When assessing whether the Bank has power, only substantive rights (held by the Bank and other parties) are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

4 Summary of significant accounting policies (Continued)

(a) Consolidated financial statements (Continued)

(iii) Consolidated financial statements (Continued)

Non-controlling interest is presented separately in the consolidated statement of financial position within owners' equity. Profit or loss and total comprehensive income attributable to non-controlling equity holders are presented separately in the consolidated statement of profit or loss and other comprehensive income.

When the amount of loss for the current period attributable to the non-controlling interest of a subsidiary exceeds the non-controlling interest's portion of the opening balance of equity holders' equity of the subsidiary, the excess is allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated only limited to the extent that this is no evidence of impairment.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date the ultimate controlling party first obtained control. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated.

Where a subsidiary was acquired during the reporting period, through a business combination not involving enterprises under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Where the Bank acquires a non-controlling interest from a subsidiary's non-controlling equity holders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the non-controlling interests are adjusted and the amount of the consideration paid or received is adjusted to capital reserve (share premium) in the consolidated statement of financial position. If the credit balance of capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group derecognises assets, liabilities, non-controlling interests and other related items in equity holders' equity in relation to that subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any gains or losses therefore incurred are recognised as investment income for the current period when the control is lost.

If there is a difference between the accounting entity of a Group and the accounting entity of the bank or a subsidiary on measuring the same transaction, the transaction will be adjusted from the perspective of the Group.

4 Summary of significant accounting policies (Continued)

(b) Foreign currency translations

(i) Translation of foreign currency transactions

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated into Renminbi by applying the spot exchange rates at the dates of the transaction. Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the reporting date. The resulting exchange differences are recognised in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rate at the date the fair value is determined. The differences arising from the translation of financial assets at fair value through other comprehensive income is recognised in other comprehensive income. Changes in the fair value of monetary assets denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortised cost are recognised in the consolidated statement of profit or loss, and other changes in the carrying amount are recognised in other comprehensive income. The translation differences resulting from other monetary assets and liabilities are recognised in the consolidated statement of profit or loss.

(ii) Translation of financial statements denominated in foreign currency

Financial statements denominated in foreign currency are translated into Renminbi for the preparation of consolidated financial statements. The assets and liabilities in the financial statements denominated in foreign currency are translated into Renminbi at the spot exchange rates prevailing at the reporting date. The equity items, except for "retained earnings", are translated to Renminbi at the spot exchange rates at the dates on which such items arose. Income and expenses 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. The resulting exchange differences are recognised in other comprehensive income.

Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in equity holders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency are reported in the statement of cash flows.

(c) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell asset.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(i) Initial recognition and classification of financial instruments

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost

The business model adopted by the Group for managing its financial assets refers to how the Group manages its financial assets in order to generate cash flows. The business model determines whether the cash flows from the financial assets managed by the Group come from the collection of contractual cash flows, sale of financial assets or a combination of the two methods. In determining the business model for a group of financial assets, the Group considers various factors, including: past experience in collecting cash flows from this group of assets; how to assess the performance of this group of asset and report it to key management personnel; how to assess and manage risks are; and how to compensate people responsible for managing these assets, among others.

The contractual cash flow characteristics of financial assets refer to contractual terms as agreed in the financial instrument contracts that reflect the economic characteristics of the financial assets, i.e., the contractual cash flows arising at a specified date from the financial assets at amortised cost or FVOCL are solely payments of principal and interest on the principal amount outstanding. Of which, the principal is the fair value of the financial asset at initial recognition, and the amount of the principal may change over the life of the financial asset, if, e.g., there are repayments of principal; and the interest includes consideration for the time value of money, and credit risk, other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The classification requirements for debt instruments and equity instruments are described below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on: i) the Group's business model for managing the asset; and ii) the cash flow characteristics of asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cashflows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(i) Initial recognition and classification of financial instruments (Continued)

Financial assets (Continued)

Debt Instruments (Continued)

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting the liabilities. A financial instrument is an equity instrument if, and only if, both conditions i) and ii) below are met:

i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity investments of the Group are measured at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than trading. After designation, the fair value change is recognised in the other comprehensive income and it is not allowed to subsequently reclassify to profit or loss (including upon disposal). Impairment loss and reversal of impairment is not presented separately in the financial statement and is included in the fair value change. Dividend income as the return from investments is recognised by the Group when the right to receive is formed

Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortised cost on initial recognition. Financial liabilities at FVPL is applied to derivatives, financial liabilities held for trading and financial liabilities designated as such at initial recognition.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(i) Initial recognition and classification of financial instruments (Continued)

Financial liabilities (Continued)

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's key management personnel.

(ii) Measurement of financial assets

Initial measurement

Financial assets at FVPL are stated at fair value. Financial assets at fair value through profit or loss, transaction costs that are directly attributable to profit or loss. Financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets.

Subsequent measurement

Subsequent measurement of financial assets depends on the categories:

Financial assets and financial liabilities measured at amortised cost

The amortised cost is the amount at which the financial asset is measured at initial recognition: i) minus the principal; ii) plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and maturity amount; iii) for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider expected credit losses ('ECL') and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of this gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset, except for:

i) a POCI financial asset, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to its amortised cost; and

ii) a financial assets that is not a POCI financial asset but has subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to its amortised cost. If, in a subsequent period, the financial asset improves its quality so that it is no longer credit-impaired and the improvement in credit quality can be related objectively to a certain event occurring after the application of the above-mentioned rule, then the interest income can again be calculated by applying the effective interest rate to its gross carrying amount. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(ii) Measurement of financial assets (Continued)

Subsequent measurement

For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. If a floating-rate financial asset or a floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability.

If the Group revises its estimates of payments or receipts, the difference between the gross carrying amount of the financial asset or amortised cost of a financial liability calculated from revised estimated contractual cash flows and the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate should be recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

When the financial assets is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments

Where an investment in an equity investment not held for trading is designated as a financial asset measured at fair value through other comprehensive income, the fair value changes of the financial asset is recognised in the other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to retained earnings. The dividends on the investment are recognised in profit or loss only when the Group's right to receive payment of the dividends is established.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are stated at fair value and a gain or loss on a financial assets that is measured at fair value should be recognised in profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(ii) Measurement of financial assets (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are measured at fair value with all gains or losses recognised in the profit or loss of the current period, except for financial liabilities designated as at fair value through profit or loss, where gains or losses on the financial liabilities are treated as follows:

- changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognised in other comprehensive income; and

- other changes in fair value of such financial liabilities are recognised in profit or loss of the current period.

(iii) Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with exposure arising from loan commitments, financial guarantee contracts and lease receivables.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, ie, all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures 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.

Detailed information about ECL in the above areas is set out in note 55 (a).

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at fair value through other comprehensive income. The loss allowance is recognised in other comprehensive income and the impairment loss is recognised in profit or loss, and it should not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-months ECL at the current reporting date and the amount of ECL reversal is recognise in profit or loss.

At the reporting date, the Group only recognises the cumulative changes in lifetime ECL since initial recognition as a loss allowance for POCI financial assets. At each reporting date, the Group recognises in profit or loss the amount of the changes in lifetime ECL as an impairment gain or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(iv) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

(v) Derivatives and hedges

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(v) Derivatives and hedges (Continued)

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

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. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments for fair value hedges.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, 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.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 profit or loss over the period to maturity and recorded as net interest income.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(vi) Derecognition of financial assets

Financial assets

The Group derecognises a financial asset only when (1) the contractual rights to the cash flows from the asset expire, or (2) when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, or (3) when it transfers the financial asset and gives up the control of the transferred assets though the Group neither transfers nor retains substantially all the risks and rewards of ownership.

Where a transfer of a financial asset in its entirety meets the criteria for de-recognition, the difference between the two amounts below is recognised in the consolidated statement of profit and loss:

— the carrying amount of the financial asset transferred;

— the sum of the consideration received from the transfer and the cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

Financial liabilities

Financial liabilities are derecognised when the related obligation is discharged, is cancelled or expires. An agreement between the Group and an existing lender to exchange the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit and loss.

(vii) Securitisation

As part of its operations, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. When the securitisation of financial assets that qualify for de-recognition, the relevant financial assets are de-recognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in the unconsolidated securitisation vehicles that the Group acquired. When the securitisation of financial assets that do not qualify for de-recognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability. When the securitisation of financial assets that partially qualify for de-recognition, where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial asset.

4 Summary of significant accounting policies (Continued)

(c) Financial instruments (Continued)

(viii) Sales of assets on condition of repurchase

De-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(ix) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the consolidated statement of financial position and are not offset. However, financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only if the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(x) Financial assets held under resale and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions which the Group acquires financial assets which will be resold at a predetermined price in the future date under resale agreements. Financial assets sold under repurchase agreements are transactions which the Group sells financial assets which will be repurchased at a predetermined price in the future date under repurchase agreements.

Cash advanced or received is recognised as amounts held under resale and repurchase agreements on the consolidated statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the consolidated statement of financial position.

The difference between the resale and repurchase consideration, and that between the purchase and sale consideration, should be expired over the period of the respective transaction using the effective interest method and are included in interest expense and interest income, respectively.

(xi) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from equity holder's equity.

(d) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes and precious metals leasing are initially measured at fair value and subsequent changes in fair value are recorded in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (Continued)

(e) Interests in subsidiaries

In the Bank's consolidated statement of financial position, interests in subsidiaries are accounted for using the cost less impairment losses (see Note 4 (l)). Cost includes direct attributable costs of investment. Dividends declared by subsidiaries are recognised in investment income.

Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(f) Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

When acquiring associates and joint ventures, the Group recognises as initial investment cost in the principle which: for the investments obtained by making payment in cash, the Group recognises the purchase cost which is actually paid as initial investment costs; for the investments obtained by equity securities, the Group recognises the fair value of the equity securities issued as initial investment cost.

An investment in an associate or a joint venture is accounted for using the equity method, unless the investment is classified as held for sale.

The Group adopts the following accounting treatments when using the equity method:

— Where the initial investment cost of an associate or joint venture exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

— After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's profit or loss, other comprehensive income or profit distribution, is recognised in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

4 Summary of significant accounting policies (Continued)

(f) Interests in associates and joint ventures (Continued)

— The Group recognises its share of investee's profits or losses, other comprehensive income and other changes in equity holders' equity after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures. When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

— The Group discontinues recognising its share of net losses of investees after the carrying amount of investment to the associates and joint ventures and any long-term interest that in substance forms part of the Group's net interest in the associates and joint ventures are reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Additional loss is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate. Where profits are subsequently made by the associates and joint ventures, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

The Group makes provisions for impairment of interests in associates and joint ventures in accordance with the principles described in Note 4 (l).

(g) Property, plant and equipment

Property, plant and equipment is asset held by the Group for the conduct of business and is expected to be used for more than one year. Construction-in-progress, an item of property, represents property under construction and is transferred to property when ready for its intended use.

(i) Cost

Property, plant and equipment is stated at cost upon initial recognition. Costs of a purchased property, plant and equipment comprise purchase price, related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. Costs of a self-constructed property, plant and equipment comprise construction materials, direct labor costs and those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent to initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated statement of profit or loss as an expense when incurred.

4 Summary of significant accounting policies (Continued)

(g) Property, plant and equipment (Continued)

(iii) Depreciation

Depreciation is calculated to write off the cost, less residual value if applicable, of property, plant and equipment and is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	30 - 35 years	0%-5%	2.71%-3.33%
Computer equipment and others	3 - 10 years	0%-10%	9.00%-33.33%

No depreciation is provided in respect of construction in progress.

The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each reporting date.

(iv) Impairment

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 4 (l).

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss on the date of disposal or retirement.

(h) Intangible assets

Intangible assets are initially recognised at cost. The cost less estimated net residual values (if any) of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment loss on intangible assets is accounted for in accordance with the accounting policies as set out in Note 4 (l). Impaired intangible assets are amortised net of accumulated impairment losses.

Intangible assets which are not yet available for use should be estimated at least at each financial year-end, even if there was no indication that the assets were impaired.

4 Summary of significant accounting policies (Continued)

(i) Investment properties

Investment properties are land and/or buildings which are owned and/or held under a leasehold interest to earn rental income and/or for capital appreciation.

The Group's investment properties are accounted for using the fair value model for subsequent measurement when either of the following conditions is met:

— There is an active property market in the location in which the investment property is situated;

— The Group can obtain the market price and other relevant information regarding the same type of or similar properties from the property market, so as to reasonably estimate the fair value of the investment property.

Investment properties are stated at fair value in the consolidated statement of financial position. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of profit or loss.

When there is a change in use of properties from owner-occupation to earn rentals or for capital appreciation, the investment property transferring from property, plant and equipment or intangible assets is measured at fair value on the date of transfer. If the fair value on the transferred investment property is lower than the carrying amount of property, plant and equipment or intangible assets on the date of transfer, the difference is recognised in profit or loss, otherwise in the comprehensive income.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of profit and loss.

(j) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or a group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs impairment test on goodwill annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in the consolidated statement of profit or loss.

On disposal of the related CGU or a group of CGUs, any attributable amount of the purchased goodwill net of allowance for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted in accordance with the accounting policies as set out in Note 4 (l).

4 Summary of significant accounting policies (Continued)

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

When the Group seizes assets to compensate for the losses of loans and advances and interest receivables, the repossessed assets are initially recognised at fair value and any taxes that are directly attributable to the assets, and other expenses incurred for collecting the repossessed assets.

When the fair value less costs to sell is lower than a repossessed asset's carrying amount, an impairment loss is recognised in the consolidated statement of profit or loss. Repossessed assets are recognised at the carrying value, net of allowance for impairment losses.

The repossessed assets are disposed after acquisition and cannot be used without authorisation. The repossessed assets that are transferred to own use are treated as newly purchased property, plant and equipment.

Any gain or loss arising from the disposal of the repossessed assets is included in the consolidated statement of profit or loss in the period in which the item is disposed.

(l) Allowance for impairment of non-financial assets

(i) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset other than goodwill such as investments in associates and joint ventures, property, plant and equipment, investment properties, intangible assets and other assets may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss in the consolidated statement of profit or loss.

(ii) Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or the group of CGUs that is expected to benefit from the synergies of the combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that is largely independent of the cash flows from other assets or groups of assets.

The CGU or the group of CGUs to which goodwill has been allocated is tested for impairment by the Group annually, or whenever there is an indication that the CGU or the group of CGUs are impaired, by comparing the carrying amount of the CGU or the group of CGUs, including the goodwill, with the recoverable amount of the CGU or the group of CGUs. The recoverable amount of the CGU or the group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or the group of CGUs with allocated goodwill.

4 Summary of significant accounting policies (Continued)

(l) Allowance for impairment of non-financial assets (Continued)

(ii) Impairment of goodwill (Continued)

At the time of impairment testing of a CGU or a group of the CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of the CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of the CGUs containing the goodwill. In such circumstances, the Group tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or the group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or the group of CGUs, pro rata on the basis of the carrying amount of each asset. The carrying amount of an asset should not be reduced below the highest of its fair value less costs of disposal (if measurable); its value in use (if determinable) and zero.

An impairment loss in respect of goodwill is not reversed.

(m) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique (Note 57).

(n) Employee benefits

(i) Short-term employee benefits

During the accounting period when an employee has rendered service to the Group, the Group recognises the undiscounted amount of short-term employee benefits as a liability and as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset. Short-term employee benefits include wages, bonuses, labor union expenses and employee education expenses, social insurance such as medical insurance, work-related injury insurance and maternity insurance, as well as housing provident funds, which are all calculated based on the regulated benchmark and ratio.

(ii) Post-employment benefits: Defined contribution plans

Pursuant to the relevant laws and regulations in the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are charged to profit or loss when the related services are rendered by the employees.

In addition to the statutory provision plan, the Bank's employees have joined its annuity scheme (the "scheme") which was established by the CITIC Group Corporation ("CITIC Group") in accordance with policies regarding the state owned enterprise annuity policy. The Bank has made annuity contributions in proportion to its employee's gross salaries which are expensed in the consolidated statement of profit or loss when the contributions are made.

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme for Hong Kong staff. Contributions are charged to profit or loss as and when the contribution fall due.

4 Summary of significant accounting policies (Continued)

(n) Employee benefits (Continued)

(iii) Post-employment benefits: Defined benefit plans

The defined benefit plans of the Group are supplementary retirement benefits provided to the domestic employees.

The Group adopts the projected unit credit actuarial cost method, using unbiased and mutually compatible actuarial assumptions to estimate the demographic and financial variables, to measure the obligation associated in the defined benefits plan. The discounted present value of the defined benefit obligation, is recognised as the liabilities of the defined benefit plans.

The Group recognises the obligation of defined benefit plans in the accounting period in which the employees render the related services. Past-service costs are recognised immediately in the consolidated statement of profit or loss. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss. Re-measurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(o) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

Government grants are recognised when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attaching to the grants. Government grants are measured at the amount received or will be received when recognised as monetary assets. Government grants are measured at fair value when recognised as non-monetary assets.

The grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. The grants related to income are government grants other than those related to assets. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in the consolidated statement of profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in the consolidated statement of profit or loss immediately. The Group uses the same statement method for similar government grants.

The prime based loan of the Group is calculated based on actual incoming loan as entry value and preferential interest rate. The direct interest charges against the cost of loan.

4 Summary of significant accounting policies (Continued)

(p) Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

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 amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(q) Provisions and contingent liabilities

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The Group recognise the loss allowance of financial guarantee contracts measured by ECL as a provision.

A contingent liability is (a) a possible obligation that arises from past events and whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or (b) a present obligation that arises from past events and it is not probable that an outflow of economic benefits is required to settle the obligation; or the amount of the obligation cannot be measured reliably. Such liability is disclosed as contingent liabilities under Note 51.

(r) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated financial statements as the risks and rewards of the assets reside with the customers.

Entrusted lending is the business where the Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

4 Summary of significant accounting policies (Continued)

(s) Income recognition

Revenue is the gross inflow of economic benefit arising in the course of the Group's ordinary activities when those inflows result in increases in equity, other than increases relating to contributions from owners. Revenue is recognised when the controls of related products or services is obtained and satisfy the other conditions for different type of revenues as below.

(i) Interest income

Interest income of financial assets is calculated using the effective interest method and included in the profit and loss.

The accounting policies about interest income of financial assets measured at amortised cost refer to note 4 (c)(ii).

(ii) Fee and commission income

Fee and commission income is recognized when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan or anticipating will not, the fee is recognised as revenue on expiry.

(iii) Dividend income

Dividend income is recognised in the consolidated statement of profit or loss on the date when the Group's right to receive payment is established.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments receivable.

(v) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

4 Summary of significant accounting policies (Continued)

(t) Income tax

Current tax and deferred tax are recognised in the consolidated statement of profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current income tax is the expected tax payables on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payables in respect of previous periods. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences also arise from unused tax losses and unused tax credits. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

At the reporting date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and meet the additional conditions that deferred tax assets and liabilities relate to income taxes levied by the same authority on the same taxable entity.

(u) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturity of three months or less at acquisition.

(v) Profit distribution

Proposed dividends for ordinary shares which are declared and approved after the end of each reporting period are not recognised as a liability in the consolidated statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the notes to the consolidated financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved.

(w) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control, jointly control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

4 Summary of significant accounting policies (Continued)

(x) Operating segments

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker for the purposes of allocating resources and assessing performance. The Group considers the business from different perspectives including products and services and geographic areas. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

5 Critical accounting estimates and judgements

Preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and associated key assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets of debt instruments and off balance sheet credit assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 55 (a).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay for asset portfolios whose non-linear risk characteristics cannot be adequately reflected through impairment models; and
- Discounted cash flows model is applicable to assets related to corporate client in stage 3.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 55 (a).

5 Critical accounting estimates and judgements (Continued)

(ii) Classification of financial assets

The critical judgments the Group has in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include evaluation and reporting of financial asset performance to key management personnel, risks affecting the performance of financial assets and their management methods, and related business management personnel. The way to get paid, etc.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group has the following main judgments: Whether the principal may be subject to change in the duration or amount of money due to prepayments during the duration; Wether interests is only included currency time value, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, Wether the amount paid in advance reflect only the outstanding principal and interest on the outstanding principal, as well as reasonable compensation for early termination of the contract.

(iii) Fair value of financial instruments

For financial instruments without active market, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the end of each reporting period. However, where market data are not available, management needs to make estimates on such unobservable market inputs based on assumptions. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

(iv) De-recognition of financial assets

In its normal course of business, the Group transfers financial assets through various types of transactions including regular way sales and transfers, securitisation, financial assets sold under repurchase agreements and etc.. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transferred financial asset to structured entities, the Group analyses whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets was transferred.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

— whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows to independent third parties;

— the extent to which the associated risks and rewards of ownership of the financial assets are transferred by using appropriate models. Significant judgment is applied in the Group's assessment with regard to the parameters and assumptions applied in the models, estimated cash flows before and after the transfers, the discount rates used based on current market interest rates, variability factors considered and the allocation of weightings in different scenarios;

— where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyses whether the Group has relinquished its controls over these financial assets, and if the Group has continuing involvement in these transferred financial assets.

5 Critical accounting estimates and judgements (Continued)

(v) Consolidation of structured entities

The Group makes significant judgment to assess whether or not to consolidate structured entities. When performing this assessment, the Group:

— assesses its contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities;

— performs independent analyses and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; and

— assesses its ability to exercise its power to influence the variable returns assessed whether the Group acts as a principal or an agent through analysis of the scope of the Group's decision-making authority, remuneration entitled, other interests the Group holds, and the rights held by other parties.

(vi) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

6 Net interest income

	Year ended 31 December	
	2019	2018
Interest income arising from (Note (i)):		
Deposits with central banks	**5,949**	7,049
Deposits with banks and non-bank financial institutions	**1,741**	2,472
Placements with and loans to banks and non-bank financial institutions	**6,326**	8,203
Financial assets held under resale agreements	**753**	987
Loans and advances to customers		
— corporate loans	**101,049**	95,562
— personal loans	**84,748**	69,541
— discounted bills	**9,094**	8,645
Financial investments		
— at amortised cost	**38,238**	32,881
— at fair value through other comprehensive income	**20,584**	16,534
Others	**16**	59
Subtotal	**268,498**	241,933
Interest expense arising from:		
Borrowings from central banks	**(8,118)**	(8,937)
Deposits from banks and non-bank financial institutions	**(24,869)**	(26,389)
Placements from banks and non-bank financial institutions	**(3,522)**	(3,389)
Financial assets sold under repurchase agreements	**(1,679)**	(1,623)
Deposits from customers	**(80,272)**	(66,254)
Debt securities issued	**(22,186)**	(22,416)
Lease liabilities	**(548)**	—
Others	**(33)**	(13)
Subtotal	**(141,227)**	(129,021)
Net interest income	**127,271**	112,912

Note:

(i) Interest income from impaired financial assets is RMB361 million for the year ended 31 December 2019 (2018: RMB375 million).

(Amounts in millions of Renminbi unless otherwise stated)

7 Net fee and commission income

	Year ended 31 December	
	2019	2018
Fee and commission income:		
Bank card fees	**34,800**	24,516
Commission for custodian business and other fiduciary	**3,835**	6,044
Agency fees and commission (Note (i))	**7,345**	4,839
Guarantee and advisory fees	**4,898**	5,613
Settlement and clearance fees	**1,322**	1,269
Others	**84**	318
Total	**52,284**	42,599
Fee and commission expense	**(5,900)**	(5,591)
Net fee and commission income	**46,384**	37,008

Note:

(i) Agency fees and commission represent fees earned for sale of bonds, investment funds and insurance products, and provision of entrusted lending activities.

8 Net trading gain

	Year ended 31 December	
	2019	2018
Debt securities and certificates of interbank deposit	**2,783**	3,897
Foreign currencies	**2,194**	1,983
Derivatives and related exposures	**252**	552
Financial instrument designated at fair value through profit or loss	**—**	87
Total	**5,229**	6,519

9 Net gain from investment securities

	Year ended 31 December	
	2019	2018
Financial investments		
— at fair value through profit or loss	**7,329**	7,745
— at amortised cost	**188**	(494)
— at fair value through other comprehensive income	**(1,878)**	(1,416)
Revaluation gain/(loss) on transfer out of equity at disposal	**2,187**	(262)
Net gain from bills rediscounting	**560**	134
Net loss from securitisation of financial assets	**(7)**	3,181
Others	**250**	158
Total	**8,629**	9,046

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(Amounts in millions of Renminbi unless otherwise stated)

10 Net hedging loss

	Year ended 31 December	
	2019	2018
Net loss of fair value hedge	**(2)**	(1)

11 Operating expenses

	Year ended 31 December	
	2019	2018
Staff costs		
— salaries and bonuses	**22,320**	22,196
— welfare expenses	**1,262**	1,400
— social insurance	**1,490**	1,469
— housing fund	**1,250**	1,300
— labour union expenses and employee education expenses	**462**	416
— housing allowance	**8**	196
— other short-term benefits	**87**	61
— post-employment benefits — defined contribution plans	**2,770**	2,453
— post-employment benefits — defined benefit plans	**(14)**	102
— other long-term benefits	**1**	6
Subtotal	**29,636**	29,599
Property and equipment expenses		
— depreciation of right-of-use assets	**3,275**	—
— depreciation of property, plant and equipment	**1,742**	1,830
— rent and property management expenses	**1,492**	4,972
— amortisation expenses	**1,049**	1,112
— electronic equipment operating expenses	**547**	458
— maintenance	**728**	485
— others	**405**	398
Subtotal	**9,238**	9,255
Tax and surcharges	**1,854**	1,699
Other general operating and administrative expenses (Note (i))	**13,440**	12,047
Total	**54,168**	52,600

Note:

(i) Included in other general operating and administrative expenses were audit fees of RMB21 million for the year ended 31 December 2019 (2018: RMB20 million) and non-audit fees of RMB8 million for the year ended 31 December 2019 (2018: RMB21 million).

(Amounts in millions of Renminbi unless otherwise stated)

11 Operating expenses (Continued)

(a) Individuals with highest emoluments

For the year ended 31 December 2019, of the 5 individuals with the highest emoluments in the Group, there was no director (2018: Nil) and no supervisor (2018: Nil). The aggregate of the emoluments before individual income tax in respect of the other five (2018: five) highest paid individuals of the Group were as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**24,897**	20,089
Discretionary bonuses	**19,804**	18,452
Contribution to pension scheme	**1,761**	1,438
Total	**46,462**	39,979

The emoluments before individual income tax of the five individuals of the Group with the highest emoluments are within the following bands:

	Year ended 31 December	
	2019	2018
RMB5,000,001 — RMB10,000,000	**3**	3
RMB10,000,001 — RMB15,000,000	**2**	2

No inducement fee and compensation for loss of office was paid to the five highest paid individuals for the year ended 31 December 2019 (2018: Nil).

12 Credit impairment losses

	31 December 2019	31 December 2018
Deposits with banks and non-bank financial institutions	**67**	11
Placements with and loans to banks and non-bank financial institutions	**(84)**	(1)
Financial assets held under resale agreements	**43**	(33)
Interest receivables	**2,103**	3,034
Loans and advances to customers	**68,793**	47,753
Financial investments		
— at amortised cost	**3,589**	999
— at fair value through other comprehensive income	**678**	75
Other receivables	**390**	6,098
Off-balance sheet items	**1,100**	(50)
Total	**76,679**	57,886

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(Amounts in millions of Renminbi unless otherwise stated)

13 Impairment losses on other assets

	31 December 2019	31 December 2018
Other assets-repossessed assets	**576**	347

14 Income tax

(a) Recognised in the consolidated statement of profit or loss and other comprehensive income

	Note	Year ended 31 December 2019	2018
Current tax			
— Mainland China		**16,073**	12,680
— Hong Kong		**501**	561
— Overseas		**33**	46
Deferred tax	30(c)	**(9,056)**	(4,337)
Total		**7,551**	8,950

Mainland China and Hong Kong income tax have been provided at the rate of 25% and 16.5% respectively. Overseas tax has been provided at the rate of taxation prevailing in the regions in which the Group operates respectively.

(b) Reconciliation between income tax expense and accounting profit

	Year ended 31 December 2019	2018
Profit before tax	**56,545**	54,326
Income tax calculated at PRC statutory tax rate	**14,136**	13,581
Effect of different tax rates in other regions	**(263)**	(286)
Tax effect of non-deductible expenses	**282**	274
Tax effect of non-taxable income		
— interest income arising from PRC government bonds and local government bonds	**(4,893)**	(3,353)
— the dividends of funds	**(1,620)**	(1,209)
— others	**(91)**	(57)
Income tax	**7,551**	8,950

(Amounts in millions of Renminbi unless otherwise stated)

15 Other comprehensive income, net of tax

	Year ended 31 December	
	2019	2018
Items that will not be reclassified subsequently to profit or loss		
Changes on the measurement of defined benefit plans, net of tax		
— net changes recognised during the year before tax	—	9
— income tax	—	(2)
Fair value changes on financial asset designated at fair value through other comprehensive income, net of tax		
— net changes in fair value recognised during the year before tax	**(1,052)**	15
— income tax	**263**	(4)
Transfer from owner-occupied property to investment property		
— net changes during the year before tax	—	65
Subtotal	**(789)**	83
Items that may be reclassified subsequently to profit or loss		
Other comprehensive income transferable to profit or loss under equity method		
— net changes during the year	—	(10)
Fair value changes on financial assets at fair value through other comprehensive income, net of tax (Note(i))		
— net changes during the year before tax	**4,425**	13,300
— net amount transferred to profit or loss	**(2,187)**	149
— Income tax	**(524)**	(3,409)
Credit impairment allowance on financial assets at fair value through other comprehensive income (Note(ii))		
— net changes during the year	**927**	173
— Income tax	**(242)**	(33)
Exchange differences on translation	**592**	2,209
Subtotal	**2,991**	12,379
Other comprehensive income, net of tax	**2,202**	12,462

Note:

(i) Fair value changes on financial assets at fair value through other comprehensive income include those of financial investments and loans and advances to customers at fair value through other comprehensive income (Note 22 (a)).

(ii) Credit impairment allowance include financial investments and loans and advances to customers at fair value through other comprehensive income (Note 22 (a)).

(Amounts in millions of Renminbi unless otherwise stated)

16 Earnings per share

Earnings per share information for the year ended 31 December 2019 and 2018 is computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of shares in issue during the year.

The Bank issued non-cumulative preference shares during the year ended 31 December 2016, under the terms and conditions as detailed in Note 43 (i). The Bank declared and paid cash dividends of RMB1,330 million of non-cumulative preference shares for the year of 2019 (2018: 1,330 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2019, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

The diluted earnings per share is calculated on the assumption that the RMB40 billion A-share convertible corporate bonds publicly issued by the Bank on 4 March 2019 are deemed to have all been converted to ordinary shares upon issuance, and by dividing, after adjustments for the interest expenses of the convertible corporate bonds for the period, the net profit of the year attributable to ordinary shareholders of the Bank, by the adjusted weighted average number of ordinary shares outstanding during the year.

	Year ended 31 December	
	2019	2018
Profit for the year attributable to equity holders of the Bank	**48,015**	44,513
Less: dividend attributable to preference shareholders of the Bank	**1,330**	1,330
Profit for the year attributable to ordinary shareholders of the Bank	**46,685**	43,183
Weighted average number of shares (in million shares)	**48,935**	48,935
Basic earnings per share (in RMB)	**0.95**	0.88
Diluted earnings per share (in RMB)	**0.89**	0.88

(Amounts in millions of Renminbi unless otherwise stated)

17 Cash and balances with central banks

	Notes	**31 December 2019**	31 December 2018
Cash		**6,345**	6,188
Balances with central banks			
— statutory deposit reserve funds	(i)	**354,074**	399,797
— surplus deposit reserve funds	(ii)	**97,602**	128,423
— fiscal deposits	(iii)	**1,890**	2,816
— foreign exchange reserve	(iv)	**3,080**	1,289
Accrued interest		**167**	195
Total		**463,158**	538,708

Notes:

(i) The Group places statutory deposit reserve funds with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserve funds are not available for use in the Group's daily business.

As at 31 December 2019, the statutory deposit reserve funds placed with the PBOC was calculated at 9% (as at 31 December 2018: 12%) of eligible Renminbi deposits for domestic branches of the Bank and at 9% (as at 31 December 2018: 12%) of eligible Renminbi deposits from overseas financial institutions. The Bank was also required to deposit an amount equivalent to 5% (as at 31 December 2018: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve funds.

As at 31 December 2019, the statutory RMB deposit reserve rates applicable to Zhejiang Lin'an CITIC Rural Bank Corporation Limited in mainland China, a subsidiary of the Group, was at 7.5% (as at 31 December 2018: 9%).

The amounts of statutory deposit reserve funds placed with the central banks of overseas countries are determined by respective jurisdictions. The statutory deposit reserve funds are interest bearing except for the foreign currency reserve funds deposits placed with the PBOC.

(ii) The surplus deposit reserve funds are maintained with the PBOC for the purposes of clearing.

(iii) Fiscal deposits placed with the PBOC are not available for use in the Group's daily operations, and are non-interest bearing.

(iv) The foreign exchange reserve is maintained with the PBOC in accordance with the related notice issued by the PBOC. The reserve is payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month for the period of application. Such foreign exchange reserve is non-interest bearing and will be repayable in 12 months according to the Notice.

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(Amounts in millions of Renminbi unless otherwise stated)

18 Deposits with banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	**31 December 2019**	31 December 2018
In Mainland China			
— banks		**89,740**	44,318
— non-bank financial institutions		**5,188**	21,028
Subtotal		**94,928**	65,346
Outside Mainland China			
— banks		**25,785**	31,984
— non-bank financial institutions		**11**	1,783
Subtotal		**25,796**	33,767
Accrued interest		**715**	114
Gross balance		**121,439**	99,227
Less: Allowances for impairment losses	32	**(142)**	(74)
Net balance		**121,297**	99,153

(b) Analysed by remaining maturity

	Note	**31 December 2019**	31 December 2018
Demand deposits (Note (i))		**39,638**	65,023
Time deposits with remaining maturity			
— within one month		**1,620**	22,256
— between one month and one year		**79,466**	11,834
Subtotal		**81,086**	34,090
Accrued interest		**715**	114
Gross balance		**121,439**	99,227
Less: Allowances for impairment losses	37	**(142)**	(74)
Net balance		**121,297**	99,153

Note:

(i) As at 31 December 2019, the carrying amount of pledged deposits with banks and other financial institutions was RMB849 million (as at 31 December 2018: RMB1,343 million). These deposits were mainly maintenance margin with a regulatory body.

(Amounts in millions of Renminbi unless otherwise stated)

19 Placements with and loans to banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	**31 December 2019**	31 December 2018
In Mainland China			
— banks		**22,773**	13,680
— non-bank financial institutions		**119,330**	113,351
Subtotal		**142,103**	127,031
Outside Mainland China			
— banks		**61,306**	48,421
— non-bank financial institutions		**—**	—
Subtotal		**61,306**	48,421
Accrued interest		**1,219**	873
Gross balance		**204,628**	176,325
Less: Allowances for impairment losses	32	**(81)**	(165)
Net balance		**204,547**	176,160

(b) Analysed by remaining maturity

	Note	**31 December 2019**	31 December 2018
Within one month		**126,867**	112,284
Between one month and one year		**62,092**	63,168
Over one year		**14,450**	—
Accrued interest		**1,219**	873
Gross balance		**204,628**	176,325
Less: Allowances for impairment losses	32	**(81)**	(165)
Net balance		**204,547**	176,160

(Amounts in millions of Renminbi unless otherwise stated)

20 Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in foreign exchange, precious metals, interest rate and credit derivatives related to trading, asset and liability management and customer initiated transactions. The Group, through the operations of its branch network, acts as an intermediary for a wide range of customers for structuring deals to offer risk management solutions to match individual customer needs. These positions are actively managed through hedging transactions with external parties to ensure the Group's net exposures are within acceptable risk levels. The Group also uses these derivatives for proprietary trading purposes and to manage its own asset and liability and structural positions. Derivatives, except for those which are designated as hedging instruments (Note 20(c)), are held for trading. Derivatives classified as held for trading are for trading and customer initiated transactions purpose, and those for risk management purposes but do not meet the criteria for hedge accounting.

The contractual/notional amounts of derivatives provide a basis for comparison with fair values of derivatives recognised on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the derivatives and, therefore, do not indicate the Group's exposure to credit or market risks.

	31 December 2019			31 December 2018		
	Nominal amount	**Assets**	**Liabilities**	Nominal amount	Assets	Liabilities
Hedging instruments (Note 20(c))						
— interest rate derivatives	**2,890**	**15**	**17**	8,385	96	8
Non-Hedging instruments						
— interest rate derivatives	**2,883,406**	**5,188**	**5,159**	1,837,247	6,010	5,966
— currency derivatives	**1,513,070**	**11,700**	**10,928**	2,595,674	24,826	24,501
— precious metal derivatives	**12,715**	**214**	**732**	58,644	1,048	1,170
— credit derivatives	**—**	**—**	**—**	820	11	1
Total	**4,412,081**	**17,117**	**16,836**	4,500,770	31,991	31,646

(a) Nominal amount analysed by remaining maturity

	31 December 2019	31 December 2018
Within three months	**1,746,119**	1,921,744
Between three months and one year	**1,753,923**	2,033,875
Between one year and five years	**896,911**	542,276
Over five years	**15,128**	2,875
Total	**4,412,081**	4,500,770

(b) Credit risk weighted amounts

The credit risk weighted amount has been computed in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) promulgated by the CBIRC in the year of 2012, and depends on the status of the counterparties and the maturity characteristics of the instruments, including those customer-driven back-to-back transactions. As at 31 December 2019, the total amount of credit risk weighted amount for counterparty was RMB14,631 million (as at 31 December 2018: RMB20,158 million).

(c) Fair value hedge

A subsidiary of the Group utilises fair value hedge to eliminate the effect of fair value changes of financial assets and financial liabilities caused by market interest rate fluctuations. Interest rate swap contracts are used for hedging interest risks arising from debt securities at fair value through other comprehensive income, certificates of deposit and subordinated bonds issued.

(Amounts in millions of Renminbi unless otherwise stated)

21 Financial assets held under resale agreements

(a) Analysed by types and locations of counterparties

	Note	**31 December 2019**	31 December 2018
In Mainland China			
— banks		**10,001**	3,402
— non-bank financial institutions		**—**	6,428
Subtotal		**10,001**	9,830
Outside Mainland China			
— banks		**—**	958
Accrued interest		**—**	6
Gross balance		**10,001**	10,794
Less: Allowance for impairment losses	32	**(47)**	(4)
Net balance		**9,954**	10,790

(b) Analysed by types of collateral

As at 31 December 2019 and 31 December 2018, the collateral type of financial asset under resale agreements of the Group are all debt instruments. The collateral received by the Group in resale transactions are disclosed in Note 52 Collateral.

(c) Analysed by remaining maturity

As at 31 December 2019 and 31 December 2018, the financial assets held under resale agreements of the Group all mature within one month.

(Amounts in millions of Renminbi unless otherwise stated)

22 Loans and advances to customers

(a) Analysed by nature

	Notes	**31 December 2019**	31 December 2018
Loans and advances to customers at amortised cost			
Corporate loans and advances			
— loans		**1,911,597**	1,833,171
— discounted bills		**3,787**	146,414
— finance lease receivables and payment for resale arrangement		**43,000**	47,817
Subtotal		**1,958,384**	2,027,402
Personal loans and advances			
— residential mortgages		**776,657**	643,407
— credit cards		**514,657**	442,493
— personal consumption		**205,483**	203,853
— business loans		**227,102**	194,737
Subtotal		**1,723,899**	1,484,490
Accrued interest		**10,104**	8,338
Gross balance		**3,692,387**	3,520,230
Less: Allowances for impairment losses on loans	32		
— principal		**(115,403)**	(101,022)
— interest		**(86)**	(78)
Loans and advances to customers at amortised cost, net		**3,576,898**	3,419,130
Loans and advances to customers at fair value through other comprehensive income			
— loans		**922**	137
— discounted bills		**307,867**	96,383
Carrying amount of loans and advances at fair value through other comprehensive income		**308,789**	96,520
— fair value changes through comprehensive income		**(48)**	(21)
Loans and advances to customers at fair value through profit or loss			
Personal loans and advances			
— residential mortgages		**6,915**	—
Total		**3,892,602**	3,515,650
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	32	**(467)**	(132)

(Amounts in millions of Renminbi unless otherwise stated)

22 Loans and advances to customers (Continued)

(b) Analysed by assessment method of allowance for impairment losses

	31 December 2019			
	Stage one	**Stage two**	**Stage three (Note (i))**	**Total**
Gross loans and advances to customers at amortised costs	**3,516,330**	**96,397**	**69,556**	**3,682,283**
Accrued interest	**9,320**	**773**	**11**	**10,104**
Less: Allowance for impairment losses	**(35,562)**	**(26,088)**	**(53,839)**	**(115,489)**
Carrying amount of loans and advances to customers measured at Amortised cost	**3,490,088**	**71,082**	**15,728**	**3,576,898**
Carrying amount of loans and advances to customers at fair value through other comprehensive income	**308,712**	**48**	**29**	**308,789**
Total	**3,798,800**	**71,130**	**15,757**	**3,885,687**
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	**(453)**	**—**	**(14)**	**(467)**

	31 December 2018			
	Stage one	Stage two	Stage three (Note (i))	Total
Gross loans and advances to customers at amortised costs	3,353,529	92,949	65,414	3,511,892
Accrued interest	7,592	727	19	8,338
Less: Allowance for impairment losses	(31,940)	(22,788)	(46,372)	(101,100)
Carrying amount of loans and advances to customers measured at Amortised cost	3,329,181	70,888	19,061	3,419,130
Carrying amount of loans and advances to customers at fair value through other comprehensive income	96,520	—	—	96,520
Total	3,425,701	70,888	19,061	3,515,650
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	(132)	—	—	(132)

(Amounts in millions of Renminbi unless otherwise stated)

22 Loans and advances to customers (Continued)

(b) Analysed by assessment method of allowance for impairment losses (Continued)

Notes:

(i) Stage 3 loans are loans and advances to customers that have incurred credit impairment.

	31 December 2019	31 December 2018
Secured portion	**41,596**	37,648
Unsecured portion	**27,989**	27,766
Gross balance	**69,585**	65,414
Allowance for impairment losses	**(53,853)**	(46,372)

As at 31 December 2019, the maximum exposure covered by pledge and collateral held of secured portion is RMB40,206 million (as at 31 December 2018: RMB35,221 million).

The fair value of collateral was estimated by management based on the latest revaluation including available external valuation, if any, adjusted by taking into account the current realisation experience as well as market situation.

(c) Overdue loans analysed by overdue period

	31 December 2019				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**17,173**	**10,511**	**1,507**	**144**	**29,335**
Guaranteed loans	**10,353**	**6,350**	**4,191**	**230**	**21,124**
Loans with pledged assets					
— loans secured by collateral	**23,901**	**11,134**	**10,810**	**2,012**	**47,857**
— pledged loans	**2,439**	**1,865**	**1,288**	**101**	**5,693**
Total	**53,866**	**29,860**	**17,796**	**2,487**	**104,009**

	31 December 2018				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	9,221	9,602	1,977	493	21,293
Guaranteed loans	9,284	8,292	6,639	627	24,842
Loans with pledged assets					
— loans secured by collateral	16,428	13,339	12,008	2,367	44,142
— pledged loans	2,457	1,959	1,752	114	6,282
Total	37,390	33,192	22,376	3,601	96,559

Overdue loans represent loans of which the principal or interest are overdue one day or more.

(Amounts in millions of Renminbi unless otherwise stated)

22 Loans and advances to customers (Continued)

(d) Finance lease receivables and Payment for resale arrangement

Finance lease receivables and payment for resale arrangement transactions are attributable to the Group's subsidiaries, CITIC Financial Leasing Limited ("CFLL") and CITIC International Finance Holdings Limited ("CIFH"), include net investment in machines and equipment leased to customers under finance lease and hire purchase contracts which have the characteristics of finance leases. These contracts usually run for an initial period from 1 to 25 years. The total finance lease receivables and payment for resale arrangement transactions under finance lease and hire purchase contracts and their present values are as follows:

	31 December 2019	31 December 2018
Within one year (including one year)	**11,619**	11,826
One year to two years (including two years)	**9,935**	9,866
Two years to three years (including three years)	**6,689**	7,863
Over three years	**14,757**	18,262
Gross balance	**43,000**	47,817
Less: Allowance for impairment losses		
— stage one	**(690)**	(1,001)
— stage two	**(1,153)**	(429)
— stage three	**(150)**	(100)
Net balance	**41,007**	46,287

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23 Financial investments

(a) Analysed by types

	Note	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss			
Investment funds		**218,491**	189,176
Debt securities		**42,870**	71,920
Certificates of deposit		**46,792**	16,713
Equity instruments		**8,424**	4,461
WMPs and investments through structured entities		**952**	116
Trust investment plans (Note(i))		**17**	26,486
Net balance		**317,546**	308,872
Financial assets at amortised cost			
Debt securities		**574,644**	381,688
Investment management products managed by securities companies (Note(i))		**186,217**	228,502
Trust investment plans (Note(i))		**160,248**	151,582
Certificates of deposit		**—**	11,406
Subtotal		**921,109**	773,178
Accrued interest		**9,901**	8,430
Less: Allowance for impairment losses	32	**(6,776)**	(3,370)
— principles		**(6,758)**	(3,355)
— accrued interests		**(18)**	(15)
Net balance		**924,234**	778,238
Financial assets at fair value through other comprehensive income (Note(ii))			
Debt securities		**616,794**	491,015
Certificates of deposit		**4,866**	12,644
Subtotal		**621,660**	503,659
Accrued interest		**7,120**	6,687
Net balance		**628,780**	510,346
Allowances for impairment losses on financial investments at fair value through other comprehensive income	32	**(1,631)**	(1,039)
Financial assets designated at fair value through other comprehensive income (Note(ii))		**3,036**	2,707
Total		**1,873,596**	1,600,163

(Amounts in millions of Renminbi unless otherwise stated)

23 Financial investments (Continued)

(a) Analysed by types (Continued)

Notes:

(i) As of 31 December 2019, RMB84,447 million (31 December 2018: RMB99,095 million) of Trust investment plans and Investment management products managed by securities companies listed above were managed by the subsidiaries and related companies of CITIC Corporation Limited, the Bank's immediate parent company.

The underlying assets of Trust investment plans and Investment management products managed by securities companies primarily include credit assets, interbank assets and rediscounted bills (Note 55 (a) (viii)).

(ii) ***Financial investments at fair value through other comprehensive income***

	Note	**31 December 2019** Equity instruments	Debt security instruments	Total
Costs/Amortised cost		**4,140**	**614,035**	**618,175**
Fair value change on accumulated into other comprehensive income		**(1,104)**	**7,625**	**6,521**
Fair value		**3,036**	**621,660**	**624,696**
Allowance for impairment losses	32		**(1,631)**	**(1,631)**

	Note	31 December 2018 Equity instruments	Debt security instruments	Total
Costs/Amortised cost		2,759	498,299	501,058
Fair value change on accumulated into other comprehensive income		(52)	5,360	5,308
Fair value		2,707	503,659	506,366
Allowance for impairment losses	32		(1,039)	(1,039)

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

23 Financial investments (Continued)

(b) Analysed by location of counterparties

	Note	**31 December 2019**	31 December 2018
In Mainland China			
— governments		**653,797**	475,246
— policy banks		**98,832**	122,411
— banks and non-bank financial institutions		**916,083**	400,793
— corporates		**102,415**	126,144
Subtotal		**1,771,127**	1,124,594
Outside Mainland China			
— governments		**20,986**	16,121
— banks and non-bank financial institutions		**42,069**	433,910
— public entities		**340**	2,084
— corporates		**28,829**	11,707
Subtotal		**92,224**	463,822
Accrued interest		**17,021**	15,117
Total		**1,880,372**	1,603,533
Less: Impairment allowance for financial assets at amortised cost	32	**(6,776)**	(3,370)
Net balance		**1,873,596**	1,600,163
Listed in Hong Kong		**44,990**	39,541
Listed outside Hong Kong		**1,436,126**	1,104,876
Unlisted		**392,480**	455,746
Total		**1,873,596**	1,600,163

Bonds traded in China's inter-bank bond market are listed outside Hong Kong.

(Amounts in millions of Renminbi unless otherwise stated)

23 Financial investments (Continued)

(c) Analysed by assessment method of allowance for impairment losses

	Notes	31 December 2019 Stage one	Stage two	Stage three	Total
Financial assets at amortised costs		**901,695**	**10,716**	**8,698**	**921,109**
Accrued interest		**9,825**	**76**	**—**	**9,901**
Less: Allowance for impairment losses	32	**(3,614)**	**(334)**	**(2,828)**	**(6,776)**
Net Balance		**907,906**	**10,458**	**5,870**	**924,234**
Financial assets at fair value through other comprehensive income		**621,337**	**123**	**200**	**621,660**
Accrued interest		**7,120**	**—**	**—**	**7,120**
Net Balance		**628,457**	**123**	**200**	**628,780**
Total carrying amount of financial assets affected by credit risk		**1,536,363**	**10,581**	**6,070**	**1,553,014**
Allowance for impairment losses of other debt instruments included in other comprehensive income		**(1,331)**	**(3)**	**(297)**	**(1,631)**

	Notes	31 December 2018 Stage one	Stage two	Stage three	Total
Financial assets at amortised costs		768,136	3,882	1,160	773,178
Accrued interest		8,422	8	—	8,430
Less: Allowance for impairment losses	32	(2,680)	(152)	(538)	(3,370)
Net Balance		773,878	3,738	622	778,238
Financial assets at fair value through other comprehensive income		503,334	104	221	503,659
Accrued interest		6,686	1	—	6,687
Net Balance		510,020	105	221	510,346
Total carrying amount of financial assets affected by credit risk		1,283,898	3,843	843	1,288,584
Allowance for impairment losses of other debt instruments included in other comprehensive income		(727)	(2)	(310)	(1,039)

(Amounts in millions of Renminbi unless otherwise stated)

24 Investments in associates and joint ventures

	Note	31 December 2019	31 December 2018
Investments in joint ventures	(a)	**2,914**	2,759
Investments in associates	(b)	**758**	1,122
Total		**3,672**	3,881

(a) Investment in joint ventures

The details of the joint ventures as at 31 December 2019 were as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares	Principal activities	Nominal value of issued shares
CITIC aiBank Corporation Limited ("CITIC Baixin") (Note (i))	Corporation	Mainland China	70.0%	Financial services	RMB4.0 billion
JSC Altyn Bank Corporation Limited. ("JSC Altyn Bank") (Note(ii))	Corporation	Kazakhstan	50.1%	Financial services	KZT7.05 billion

Notes:

(i) According to the Articles of Association, the Bank and Fujian BoRui Network Technology Co.,Ltd. ("Fujian BoRui") shall jointly approve main critical events before further development.

(ii) In 2018, the Bank completed its acquisition of 50.1% shares in JSC Altyn Bank. According to the Articles of Association of JSC Altyn Bank, decisions regarding all major activities of JSC Altyn Bank shall be subject to the joint approval of the Bank and the other shareholder, the JSC Halyk Bank of Kazakhstan.

Financial statements of the joint ventures are as follow:

	As at or for the year ended 2019				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total net assets**	**Operating income**	**Net gain**
CITIC Baixin	**58,865**	**55,620**	**3,245**	**2,373**	**20**
JSC Altyn Bank	**9,520**	**8,487**	**1,033**	**472**	**259**

	As at or for the year ended 2018				
Name of Enterprise	Total assets	Total liabilities	Total net assets	Operating income	Net (loss)/gain
CITIC Baixin	35,924	32,701	3,223	1,295	(484)
JSC Altyn Bank	7,928	7,194	734	349	195

(Amounts in millions of Renminbi unless otherwise stated)

24 Investments in associates and joint ventures (Continued)

(a) Investment in joint ventures (Continued)

Movement of the Group's interests in the joint venture:

	Year ended 31 December 2019	Year ended 31 December 2018
Initial investment cost	**3,229**	3,229
As at 1 January	**2,759**	1,196
Additions	**—**	1,829
Share of net loss of the joint ventures for the year	**154**	(274)
Exchange difference	**1**	8
As at 31 December	**2,914**	2,759

(b) Investment in associates

The Group holds its investment in associates through subsidiaries and details of the associates as at 31 December 2019 was as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares and voting right held by the Group	Principal activities	Nominal value of issued shares
CITIC International Assets Management Limited ("CIAM")	Corporation	Hong Kong	46%	Investment holding and assets management	HKD2,218 million
Binhai (Tianjin) Financial Assets Exchange Company Limited ("BFAE")	Corporation	Mainland China	20%	Services and investment	RMB500 million

Financial statements of the associates are as follow:

	As at or for the year ended 2019				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total net assets**	**Operating income**	**Net loss**
CIAM	**1,540**	**172**	**1,368**	**(38)**	**(133)**
BFAE	**428**	**26**	**402**	**150**	**(50)**

	As at or for the year ended 2018				
Name of Enterprise	Total assets	Total liabilities	Total net assets	Operating income	Net (loss)/profit
CIAM	1,631	149	1,482	(718)	(768)
ZhongAn Financial Services Limited	884	—	884	5	5
BFAE	499	47	452	3	(30)

(Amounts in millions of Renminbi unless otherwise stated)

24 Investments in associates and joint ventures (Continued)

(b) Investment in associates (Continued)

Movement of the Group's interests in associates:

	Year ended 31 December 2019	Year ended 31 December 2018
Initial investment cost	**1,168**	1,489
As at 1 January	**1,122**	1,145
Additions	**(321)**	306
Share of net loss of associates for the year	**(52)**	(368)
Share of other comprehensive income of associates for the year	**—**	(10)
Exchange difference	**9**	49
As at 31 December	**758**	1,122

25 Investment in subsidiaries

	Notes	**31 December 2019**	31 December 2018
Investment in subsidiaries			
— CITIC international financial holdings limited ("CIFH")	(i)	**16,570**	16,570
— CNCB (Hong Kong) Investment Limited ("CNCB Investment")	(ii)	**1,577**	1,577
— Zhejiang Lin'an CITIC Rural Bank Corporation Limited ("Lin'an Rural Bank")	(iii)	**102**	102
— CITIC financial leasing CO., LTD ("CFLL")	(iv)	**4,000**	4,000
Total		**22,249**	22,249

(Amounts in millions of Renminbi unless otherwise stated)

25 Investment in subsidiaries (Continued)

Major subsidiaries of the Bank as at 31 December 2019 are as follows:

Name of entity	Place of incorporation	Particulars of the issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership held by subsidiaries of the Bank	The Group's effective interest
CIFH (Note (i))	Hong Kong	HKD7,503 million	Commercial banking and other financial services	100%	—	100%
CNCB Investment (Note (ii))	Hong Kong	HKD1,889 million	Lending services	99.05%	0.71%	99.76%
Lin'an Rural Bank (Note (iii))	Mainland China	RMB200 million	Commercial banking	51%	—	51%
CFLL (Note (iv))	Mainland China	RMB4,000 million	Financial lease operations	100%	—	100%

Notes:

(i) CIFH is an investment holding company registered and headquartered in Hong Kong. Its business scope through its subsidiaries covers commercial banking and other financial services. The Bank holds 100% shareholding in CIFH. CIFH holds 75% shareholding in CITIC Bank International Limited ("CBI").

(ii) CNCB Investment was founded in Hong Kong in 1984. Holding a money lending licence issued by the Hong Kong Company Registry, CNCB Investment's business scope includes capital market investment, lending and other related services. The Bank holds 99.05% shareholding in CNCB Investment, and CIFH holds the remaining 0.71% shareholding in CNCB Investment. The Bank effectively held 99.76% shareholding in CNCB Investment.

(iii) Lin'an Rural Bank was founded in Zhejiang Province of Mainland China in 2011 with a registered capital of RMB200 million. Its principal activities are commercial banking related businesses. The Bank holds 51% of Lin'an Rural Bank's shares and voting rights.

(iv) The Bank established CFLL in 2015 with a registered capital of RMB4 billion. Its principal business activities are financial leasing. The Bank holds 100% of its shares and voting rights.

(Amounts in millions of Renminbi unless otherwise stated)

26 Investment properties

	31 December 2019	31 December 2018
Fair value as at 1 January	**443**	295
Change in fair value	**(15)**	35
Transfers in/(out)	**(10)**	93
Exchange difference	**8**	20
Fair value as at 31 December	**426**	443

Investment properties of the Group are buildings held by subsidiaries and mainly located in Hong Kong and leased to third parties through operating leases. There are active real estate markets where the investment properties are located and the Group is able to obtain market price and related information of similar properties, and therefore makes estimation about the fair value of the investment properties as at 31 December 2019.

All investment properties of the Group were revalued at 31 December 2019 by an independent firm of surveyors, Prudential Surveyors Hong Kong Limited, on an open market value basis. The fair value is in line with the definition of "IFRS13 – Fair value measurement". The revaluation surplus has been recognised in the profit or loss for the current year. Prudential Surveyors Hong Kong Limited has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

The investment properties of the Group are categorised into Level 3.

27 Property, plant and equipment

	Buildings	**Construction in progress**	**Computer equipment and others**	**Total**
Cost or deemed cost:				
As at 1 January 2019	**21,885**	**1,288**	**10,839**	**34,012**
Additions	**496**	**799**	**1,612**	**2,907**
Transfer in (out) in current year	**471**	**(471)**		
Disposals	**(263)**		**(702)**	**(965)**
Exchange differences	**10**	**—**	**19**	**29**
As at 31 December 2019	**22,599**	**1,616**	**11,768**	**35,983**
Accumulated depreciation:				
As at 1 January 2019	**(4,949)**		**(7,678)**	**(12,627)**
Depreciation charges	**(694)**		**(1,048)**	**(1,742)**
Disposals	**125**		**656**	**781**
Exchange differences	**(6)**		**(17)**	**(23)**
As at 31 December 2019	**(5,524)**		**(8,087)**	**(13,611)**
Net carrying value:				
As at 1 January 2019	**16,936**	**1,288**	**3,161**	**21,385**
As at 31 December 2019 (Note (i))	**17,075**	**1,616**	**3,681**	**22,372**

(Amounts in millions of Renminbi unless otherwise stated)

27 Property, plant and equipment (Continued)

	Buildings	Construction in progress	Computer equipment and others	Total
Cost or deemed cost:				
As at 1 January 2018	21,313	1,078	11,018	33,409
Additions	1,157	210	1,466	2,833
Transfer out	(102)	—	(1,041)	(1,143)
Disposals	(514)	—	(663)	(1,177)
Exchange differences	31	—	59	90
As at 31 December 2018	21,885	1,288	10,839	34,012
Accumulated depreciation:				
As at 1 January 2018	(4,497)		(7,582)	(12,079)
Depreciation charges	(674)		(1,156)	(1,830)
Transfer out	9		492	501
Disposals	229		610	839
Exchange differences	(16)		(42)	(58)
As at 31 December 2018	(4,949)		(7,678)	(12,627)
Net carrying value:				
As at 1 January 2018	16,816	1,078	3,436	21,330
As at 31 December 2018 (Note (i))	16,936	1,288	3,161	21,385

Notes:

(i). As at 31 December 2019, the registration transfer process of certain buildings acquired has not been completed, and the net book value of such buildings was approximately RMB1,211 million (as at 31 December 2018: RMB1,078 million). The Group believes the incomplete registration procedure does not affect the rights of the Group as the legal successor to these buildings.

(Amounts in millions of Renminbi unless otherwise stated)

28 Right-of-use assets

	Buildings	Land use right	Equipments	Vehicles and others	Total
Cost or deemed cost:					
As at 31 December 2018	—	—	—	—	—
Change in accounting policy:	12,145	1,235	125	48	13,553
As at 1 January 2019	12,145	1,235	125	48	13,553
Additions	2,485	—	7	—	2,492
Reductions	(146)	(16)	(6)	(1)	(169)
Exchange differences	17	—	—	—	17
As at 31 December 2019	14,501	1,219	126	47	15,893
Accumulated depreciation:					
As at 31 December 2018	—	—	—	—	—
Change in accounting policy:	—	(242)	—	—	(242)
As at 1 January 2019	—	(242)	—	—	(242)
Accrual	(3,194)	(30)	(40)	(11)	(3,275)
Reductions	10	5	1	—	16
Exchange differences	(2)	—	—	—	(2)
As at 31 December 2019	(3,186)	(267)	(39)	(11)	(3,503)
Net carrying value:					
As at 1 January 2019	12,145	993	125	48	13,311
As at 31 December 2019	11,315	952	87	36	12,390

(i) As at 31 December 2019, the balance of the Group's lease liabilities amounted to RMB10,896 million, including RMB3,176 million of lease liabilities that will mature within a year.

(ii) As at 31 December 2019, lease payments relating to lease contracts signed but yet to be executed amounted to RMB113 million.

(iii) For the year ended 31 December 2019, the lease expense of short-term leases with a lease term of no more than 12 months and leases of assets with low values when new amounted to RMB662 million.

(Amounts in millions of Renminbi unless otherwise stated)

29 Goodwill

	31 December 2019	31 December 2018
As at 1 January	**896**	849
Exchange difference	**16**	47
As at 31 December	**912**	896

Based on the result of impairment test, no impairment losses on goodwill were recognised as at 31 December 2019 (as at 31 December 2018: Nil).

30 Deferred tax assets/(liabilities)

	31 December 2019	31 December 2018
Deferred tax assets	**32,095**	23,174
Deferred tax liabilities	**(10)**	(16)
Net	**32,085**	23,158

(a) Analysed by nature and jurisdiction

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
— allowance for impairment losses	**129,678**	**32,209**	95,710	23,729
— fair value adjustments	**(11,559)**	**(2,865)**	(9,944)	(2,526)
— employee retirement benefits and salaries payable	**10,202**	**2,551**	7,430	1,857
— others	**985**	**200**	238	114
Subtotal	**129,306**	**32,095**	93,434	23,174
Deferred tax liabilities				
— fair value adjustments	**(56)**	**(10)**	(86)	(16)
Net	**129,250**	**32,085**	93,348	23,158

(Amounts in millions of Renminbi unless otherwise stated)

30 Deferred tax assets/(liabilities) (Continued)

(b) Offsetting of deferred tax assets and deferred tax liabilities

As at 31 December 2019, the deferred tax assets/liabilities offset by the Group were RMB3,223 million (31 December 2018: RMB2,720 million).

(c) Movement of deferred tax

	Allowance for impairment losses	Fair value adjustments	Employee retirement benefits and accrued staff cost	Others	Total deferred tax
As at 31 December 2018	**23,729**	**(2,542)**	**1,857**	**114**	**23,158**
Recognised in profit or loss	**8,371**	**(72)**	**676**	**81**	**9,056**
Recognised in other comprehensive income	**103**	**(261)**	**18**	**6**	**(134)**
Exchange differences	**6**	**—**	**—**	**(1)**	**5**
As at 31 December 2019	**32,209**	**(2,875)**	**2,551**	**200**	**32,085**
As at 31 December 2017	17,060	3,070	1,562	125	21,817
Change in accounting policy	3,020	(2,588)	—	(10)	422
Recognised in profit or loss	3,633	404	298	2	4,337
Recognised in other comprehensive income	—	(3,430)	(3)	—	(3,433)
Exchange differences	16	2	—	(3)	15
As at 31 December 2018	23,729	(2,542)	1,857	114	23,158

(Amounts in millions of Renminbi unless otherwise stated)

31 Other assets

	Notes	31 December 2019	31 December 2018
Advanced payments and settlement accounts		**34,921**	2,356
Assets transfer receivables		**12,698**	—
Prepayments for properties and equipment	(i)	**11,721**	10,833
Assets with continuing involvement		**6,915**	1,588
Fee and commission receivables		**2,716**	3,534
Interest receivables		**2,119**	2,205
Repossessed assets	(ii)	**2,326**	2,203
Precious metal leasing		**3,071**	1,632
Prepayments for assets acquired for finance leases		**4,466**	1,679
Leasehold improvements		**663**	871
Prepaid rent		**45**	985
Land use rights		**—**	993
Others	(iii)	**5,895**	8,574
Total		**87,556**	37,453

Notes:

(i) Prepayments for properties and equipment

Prepayments for properties and equipment are mainly payments the Group made for office premises being constructed.

(ii) Repossessed assets

	Notes	31 December 2019	31 December 2018
Premises		**3,491**	2,429
Others		**3**	499
Gross balance		**3,494**	2,928
Less: Allowance for impairment losses	32	**(1,168)**	(725)
Net balance		**2,326**	2,203

As at 31 December 2019, the Group intended to dispose all of the repossessed assets, and had no plan to transfer the repossessed assets for own use (as at 31 December 2018: None).

(iii) Others

Others include provisional legal costs for lawyers, other prepayments, other receivables, etc.

(Amounts in millions of Renminbi unless otherwise stated)

32 Movements of allowance for impairment losses

		Year ended 31 December 2019				
	Notes	As at 1 January	Charge/ (reversal) for the year	Write-offs/ transfer out	Others Note (i)	As at 31 December
Allowance for credit impairment losses						
Deposits with bank and non-bank financial institutions	18	**74**	**67**	**—**	**1**	**142**
Placements with and loans to banks and non-bank financial institutions	19	**165**	**(84)**	**—**	**—**	**81**
Financial assets held under resale agreements	21	**4**	**43**	**—**	**—**	**47**
Loans and advances to customers	22	**101,154**	**68,793**	**(60,686)**	**6,609**	**115,870**
Financial investments	23					
— at amortised cost		**3,355**	**3,589**	**(186)**	**—**	**6,758**
— at fair value through other comprehensive income		**1,039**	**678**	**(90)**	**4**	**1,631**
Other assets — financial assets (Notes(ii))		**12,072**	**2,493**	**(10,387)**	**(130)**	**4,048**
Off balance sheet credit assets	40	**4,543**	**1,100**	**—**	**3**	**5,646**
Subtotal		**122,406**	**76,679**	**(71,349)**	**6,487**	**134,223**
Allowance for impairment losses on other assets						
Other assets — repossessed assets		**725**	**576**	**(205)**	**72**	**1,168**
Subtotal		**725**	**576**	**(205)**	**72**	**1,168**

		Year ended 31 December 2018				
	Notes	As at 1 January	Charge/ (reversal) for the year	Write-offs/ transfer out	Others Note (i)	As at 31 December
Allowance for credit impairment losses						
Deposits with bank and non-bank financial institutions	18	60	11	—	3	74
Placements with and loans to banks and non-bank financial institutions	19	165	(1)	—	1	165
Financial assets held under resale agreements	21	37	(33)	—	—	4
Interest receivables		4,970	3,034	(3,606)	(4,398)	—
Loans and advances to customers	22	97,905	47,753	(46,938)	2,434	101,154
Financial investments	23					
— at amortised cost		3,044	999	(689)	1	3,355
— at fair value through other comprehensive income		950	75	—	14	1,039
Other assets — financial assets (Notes(ii))		2,334	6,098	(1,182)	4,822	12,072
Off balance sheet credit assets	40	4,557	(50)	—	36	4,543
Subtotal		114,022	57,886	(52,415)	2,913	122,406
Allowance for impairment losses on other assets						
Other assets — repossessed assets		400	347	(7)	(15)	725
Subtotal		400	347	(7)	(15)	725

Note:

(i) Others include recovery of loans written off, and effect of exchange differences during the year.

(ii) The impairment losses of accrued interest of the financial instruments in this table and its changes are included in “Other assets-financial assets”.

(Amounts in millions of Renminbi unless otherwise stated)

33 Deposits from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	31 December 2019	31 December 2018
In Mainland China		
— banks	**288,439**	208,427
— non-bank financial institutions	**658,614**	565,387
Subtotal	**947,053**	773,814
Outside Mainland China		
— banks	**1,300**	4,242
— non-bank financial institutions	**59**	57
Subtotal	**1,359**	4,299
Accrued interest	**2,710**	4,151
Total	**951,122**	782,264

34 Placements from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	31 December 2019	31 December 2018
In Mainland China		
— banks	**45,488**	58,681
— non-bank financial institutions	**35,562**	47,239
Subtotal	**81,050**	105,920
Outside Mainland China		
— banks	**11,109**	9,197
Accrued interest	**380**	241
Total	**92,539**	115,358

35 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparties

	31 December 2019	31 December 2018
In Mainland China		
— PBOC	**65,329**	93,151
— banks	**46,486**	25,911
— non-bank financial institutions	**—**	1,000
Subtotal	**111,815**	120,062
Outside Mainland China		
— banks	**—**	218
Subtotal	**—**	218
Accrued interest	**23**	35
Total	**111,838**	120,315

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

35 Financial assets sold under repurchase agreements (Continued)

(b) Analysed by type of collateral

	31 December 2019	31 December 2018
Discounted bills	**76,229**	33,809
Debt securities	**35,586**	86,471
Accrued interest	**23**	35
Total	**111,838**	120,315

The Group did not derecognise financial assets transferred as collateral in connection with financial assets sold under repurchase agreements. As at 31 December 2019, non of the legal title of the collateral pledged disclosed in Note 52 has been transferred to counterparties.

36 Deposits from customers

Analysed by nature:

	31 December 2019	31 December 2018
Demand deposits		
— corporate customers	**1,668,449**	1,516,861
— personal customers	**275,526**	262,960
Subtotal	**1,943,975**	1,779,821
Time and call deposits		
— corporate customers	**1,485,727**	1,382,230
— personal customers	**602,644**	449,549
Subtotal	**2,088,371**	1,831,779
Outward remittance and remittance payables	**6,474**	4,823
Accrued interest	**34,438**	33,188
Total	**4,073,258**	3,649,611

Guarantee deposits included in above deposits:

	31 December 2019	31 December 2018
Bank acceptances	**172,075**	163,066
Guarantees	**21,390**	21,757
Letters of credit	**11,754**	6,234
Others	**93,315**	109,627
Total	**298,534**	300,684

(Amounts in millions of Renminbi unless otherwise stated)

37 Accrued staff costs

	Notes	Year ended 31 December 2019 As at 1 January	Additions during the year	Payments during the year	As at 31 December
Short-term employee benefits	(a)	**10,386**	**24,752**	**(23,418)**	**11,720**
Post-employment benefits — defined contribution plans	(b)	**31**	**2,770**	**(2,483)**	**318**
Post-employment benefits — defined benefit plans	(c)	**35**	**(14)**	**(2)**	**19**
Other long-term benefits		**97**	**1**	**(23)**	**75**
Total		**10,549**	**27,509**	**(25,926)**	**12,132**

	Notes	Year ended 31 December 2018 As at 1 January	Additions during the year	Payments during the year	As at 31 December
Short-term employee benefits	(a)	8,635	22,660	(20,909)	10,386
Post-employment benefits — defined contribution plans	(b)	34	2,453	(2,456)	31
Post-employment benefits — defined benefit plans	(c)	44	102	(111)	35
Other long-term benefits		125	6	(34)	97
Total		8,838	25,221	(23,510)	10,549

(Amounts in millions of Renminbi unless otherwise stated)

37 Accrued staff costs (Continued)

(a) Short-term employee benefits

	Year ended 31 December 2019			
	As at 1 January	Additions during the year	Payments during the year	As at 31 December
Salaries and bonuses	**9,456**	**20,193**	**(18,664)**	**10,985**
Social insurance	**45**	**1,490**	**(1,470)**	**65**
Welfare expenses	**2**	**1,262**	**(1,263)**	**1**
Housing fund	**8**	**1,250**	**(1,249)**	**9**
Labour union expenses and employee education expenses	**805**	**462**	**(688)**	**579**
Housing allowance	**54**	**8**	**(8)**	**54**
Others	**16**	**87**	**(76)**	**27**
Total	**10,386**	**24,752**	**(23,418)**	**11,720**

	Year ended 31 December 2018			
	As at 1 January	Additions during the year	Payments during the year	As at 31 December
Salaries and bonuses	7,553	17,818	(15,915)	9,456
Social insurance	28	1,469	(1,452)	45
Welfare expenses	—	1,400	(1,398)	2
Housing fund	10	1,300	(1,302)	8
Labour union expenses and employee education expenses	955	416	(566)	805
Housing allowance	75	196	(217)	54
Others	14	61	(59)	16
Total	8,635	22,660	(20,909)	10,386

(b) Post-employment benefits – defined contribution plans

Post-employment benefits defined contribution plans include contributions to statutory retirement plan. Pursuant to the relevant laws and regulations in the PRC governing labor and social security, the Group joins statutory retirement plan for the employees as set out by city and provincial governments. The Group is required to make contributions based on defined ratios of the salaries, bonuses and certain allowance of the employees to the statutory retirement plan under the administration of the government.

In addition to the above statutory retirement plan, the Bank's qualified employees have joined a defined contribution retirement scheme (the "Scheme") which was established by the Group and managed by the CITIC Group. For the year ended 31 December 2019,The Bank has made annuity contributions at 7% (31 December 2018: 5%) of its employee's gross wages. For the year ended 31 December 2019, the Bank made annuity contribution amounting to RMB1,061 million (year ended 31 December 2018: RMB757 million).

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme for Hong Kong staff. Contributions are charged to profit or loss when the contribution fall due.

(Amounts in millions of Renminbi unless otherwise stated)

37 Accrued staff costs (Continued)

(c) Post-employment benefits – defined benefit plans

The Group offers supplementary retirement benefits for certain of its qualified employees in Mainland China. Retired employees are eligible to join this supplementary retirement benefit plan. The amount that is recognised as at reporting date presents the discounted value of benefit obligation in the future.

The Group's obligations in respect of the supplementary retirement benefit plan as at the reporting date are based on the projected unit credit actuarial cost method and computed by a qualified professional actuary firm (a member of Society of Actuaries in the United States of America).

Save for the disclosed above, the Group has no other material obligation for payment of retirement benefits.

38 Taxes payable

	31 December 2019	31 December 2018
Income tax	**5,012**	1,570
VAT and surcharges	**3,830**	3,342
Others	**23**	8
Total	**8,865**	4,920

39 Debt securities issued

	Notes	**31 December 2019**	31 December 2018
Long-term debt securities issued	(a)	**80,351**	80,296
Subordinated bonds issued:			
— by the Bank	(b)	**81,475**	118,450
— by CBI	(c)	**5,591**	5,520
Certificates of deposit issued	(d)	**2,785**	2,752
Certificates of interbank deposit issued	(e)	**438,830**	341,310
Convertible corporate bonds	(f)	**37,730**	—
Accrued interest		**3,512**	4,155
Total		**650,274**	552,483

(Amounts in millions of Renminbi unless otherwise stated)

39 Debt securities issued (Continued)

(a) Long-term debt securities issued by the Group as at 31 December:

Bond Type	Issue Date	Maturity Date	Annual Interest Rate	31 December 2019 Nominal Value RMB	31 December 2018 Nominal Value RMB
Fixed rate bond	17 April 2017	17 April 2020	4.20%	**50,000**	50,000
Fixed rate bond	24 May 2017	24 May 2020	4.40%	**2,994**	2,993
Fixed rate bond	21 May 2015	25 May 2020	3.98%	**7,000**	7,000
Fixed rate bond	17 November 2015	17 November 2020	3.61%	**8,000**	8,000
Floating rate bond	14 December 2017	14 December 2020	Three-month Libor +0.9%	**4,877**	4,814
Fixed rate bond	14 December 2017	14 December 2020	2.88%	**2,090**	2,063
Floating rate bond	14 December 2017	15 December 2022	Three-month Libor +1%	**3,832**	3,783
Fixed rate bond	14 December 2017	15 December 2022	3.13%	**1,741**	1,719
Total nominal value				**80,534**	80,372
Less: Unamortised issuance cost				**(33)**	(76)
Less: offset				**(150)**	—
Carrying value				**80,351**	80,296

(b) The carrying value of the Bank's subordinated bonds issued as at 31 December:

	Notes	31 December 2019	31 December 2018
Subordinated fixed rate bonds maturing:			
— in August 2019	(i)	**—**	36,972
— in May 2025	(ii)	**11,500**	11,500
— in June 2027	(iii)	**19,985**	19,983
— in September 2028	(iv)	**29,990**	30,000
— in October 2028	(v)	**20,000**	19,995
Total		**81,475**	118,450

Notes:

(i) The interest rate on the subordinated fixed rate bonds issued on 26 August 2014 is 6.13% per annum. The Bank has an option to redeem the bonds on 26 August 2019. The bank has early redeemed all of the bonds at face value on 26 August 2019.

(ii) The interest rate on the subordinated fixed rate bonds issued on 28 May 2010 is 4.30% per annum. The Bank has an option to redeem the bonds on 28 May 2020. If they are not redeemed, the interest rate of the bonds will remain at 4.30% per annum for the next five years.

(iii) The interest rate on the subordinated fixed rate bonds issued on 21 June 2012 is 5.15% per annum. The Bank has an option to redeem the bonds on 21 June 2022. If they are not redeemed, the interest rate of the bonds will remain at 5.15% per annum for the next five years.

(iv) The interest rate on the subordinated fixed rate bonds issued on 13 September 2018 is 4.96% per annum. The Bank has an option to redeem the bonds on 13 September 2023. If they are not redeemed, the interest rate of the bonds will remain 4.96% per annum for the next five years

(v) The interest rate on the subordinated fixed rate bonds issued on 22 October 2018 is 4.8% per annum. The Bank has an option to redeem the bonds on 22 October 2023. If they are not redeemed, the interest rate of the bonds will remain 4.8% per annum for the next five years.

(Amounts in millions of Renminbi unless otherwise stated)

39 Debt securities issued (Continued)

(c) The carrying value of CBI's subordinated bonds issued as at 31 December:

	Notes	**31 December 2019**	31 December 2018
Subordinated fixed rate notes maturing:			
— in May 2019	(i)	**—**	2,055
— in June 2020	(ii)	**2,134**	3,465
— in Feb 2024	(iii)	**3,457**	—
Total		**5,591**	5,520

Notes:

(i) CBI issued USD300 million subordinated notes at a coupon rate of 6.00% per annum on 7 November 2013.The notes are listed on the Hong Kong Stock Exchange As at 7 May 2019, CBI redeemed all these subordinated notes.

(ii) CBI issued USD500 million subordinated notes at a coupon rate of 6.875% per annum on 24 June 2010. The notes are listed on the Singapore Exchange. On 28 February 2019, CBI partially redeemed USD196 million of the subordinated notes.

(iii) CBI issued USD500 million subordinated notes at a coupon rate of 4.625% per annum on 28 February 2019. CBI has an option to redeem these notes on 28 February 2024. If CBI does not exercise the redemption option, the coupon rate per annum will be the 5-year US treasury bond rate on 28 February 2024, plus 2.25%. The notes are listed on the Hong Kong Stock Exchange.

(d) These certificates of deposit were issued by CBI with interest rate ranging 3.13% per annum.

(e) As at 31 December 2019, the Bank had issued certain certificates of interbank deposits, totaling RMB438,830million (as at 31 December 2018: RMB341,310 million), with yield ranging from 2.59% to 3.67% (as at 31 December 2018: 2.80% to 4.86%) per annum. The original expiry terms are between one months to one year.

(Amounts in millions of Renminbi unless otherwise stated)

39 Debt securities issued (Continued)

(f) As approved by the relevant regulatory authorities in China, the Bank made a public offering of RMB40 billion A-share convertible corporate bonds on 4 March 2019. The convertible corporate bonds have a term of six years from 4 March 2019 to 3 March 2025, at coupon rates of 0.3% for the first year, 0.8% for the second year, 1.5% for the third year, 2.3% for the fourth year, 3.2% for the fifth year and 4.0% for the sixth year. The conversion of these convertible corporate bonds begins on the first trading day (11 September 2019) after six months upon the completion date of the offering (8 March 2019), until the maturity date (3 March 2025).

In accordance with formulas set out in the prospectus of the convertible corporate bonds, the initial conversion price of the convertible corporate bonds is RMB7.45 per share, and the price of the convertible corporate bonds will be adjusted to reflect the dilutive impact of cash dividends and increase in paid-in capital under specified circumstances. As the cash dividend was paid on 22 July 2019, the conversion price of the convertible corporate bonds has been adjusted to RMB7.22 per share. During the conversion period (from 4 March 2019 to 3 March 2025), if the closing price of the Bank's A-shares is lower than 80% of the current conversion price for at least 15 trading days in any 30 consecutive trading days, the Board of Directors of the Bank has the right to propose to lower the conversion price and submit the proposal to the shareholders' meeting for deliberation.

These convertible corporate bonds are subject to conditional redemptions. During their conversion period, if the closing prices of the Bank's A-shares are no less than 130% (inclusive) of the current conversion price for at least 15 trading days in 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible corporate bonds at their par value plus the current accrued interest, upon approval of the relevant regulatory authorities (if required). In addition, when the total amount of the outstanding convertible corporate bonds is less than RMB30 million, the Bank has the right to redeem all outstanding convertible corporate bonds at their par value plus the current accrued interest.

As at 31 December 2019, convertible corporate bonds of RMB105,000 was converted to 14,533 A-shares.

	Liability	**Equity**	**Total**
Issued nominal value of convertible corporate bonds	36,859	3,141	40,000
Direct issuance expenses	(74)	(6)	(80)
Balance at the issuance date	36,785	3,135	39,920
Amortisation	945	—	945
Amount of bonds converted	—	—	—
Ending balance	37,730	3,135	40,865

(Amounts in millions of Renminbi unless otherwise stated)

40 Provisions

	31 December 2019	31 December 2018
Allowance for impairment losses on off-balance sheet items	**5,646**	4,543
Litigation provisions	**470**	470
Total	**6,116**	5,013

The movement of off-balance sheet allowance for impairment losses is included in the Note 32.

Movement of provisions:

	31 December 2019	31 December 2018
As at 1 January	**470**	394
Accruals	**9**	220
Reversal in the current year	**(1)**	—
Payments	**(8)**	(144)
As at 31 December	**470**	470

41 Other liabilities

	Note	31 December 2019	31 December 2018
Settlement and clearing accounts		**6,896**	11,010
Payment and collection accounts		**7,589**	13,829
Deferred emoluments payable	(i)	**8,792**	9,162
Advances and deferred expenses		**5,305**	5,818
Leasing deposits		**1,463**	1,579
Accrued expenses		**111**	741
Precious metal contracts		**—**	1,383
Others		**12,722**	10,539
Total		**42,878**	54,061

Note:

(i) As at 31 December 2019, the deferred emolument payable amounted to RMB8,792 million (31 December 2018: RMB9,162 million). This represents deferred emoluments payable to employees in respect of services provided to the Group. Such amount will be distributed according to plans.

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

42 Share capital

	31 December 2019 and 31 December 2018 Number of shares (millions)	Nominal Value
Ordinary shares		
Registered, issued and fully paid:		
A-Share	**34,053**	**34,053**
H-Share	**14,882**	**14,882**
Total	**48,935**	**48,935**

	Note	31 December 2019	31 December 2018
As at 1 January		**48,935**	48,935
Convertible bond settlement	(i)	**—**	—
As at 31 December		**48,935**	48,935

Note:

(i) As at 31 December 2019, convertible corporate bonds of RMB105,000 was converted to 14,533 A-shares.

43 Other equity instruments

	31 December 2019	31 December 2018
Preference shares (Note (i))	**34,955**	34,955
Undated capital bonds (Note (ii))	**39,993**	—
Equity of convertible corporate bonds (Note 39 (f))	**3,135**	—
Total	**78,083**	34,955

(i) Preference shares

Financial instruments in issue	Dividend rate	Issued price (RMB)	Issued number of shares (RMB millions)	Issued nominal value (RMB millions)	Maturity Date	Conversions
Preference shares	3.80%	100	350	35,000	No maturity date	No conversion during the year

35,000 million preference shares of RMB100 each were issued in October 2016, with a dividend rate of 3.80% per annum for the first five years from issuance, to no more than 200 qualified investors, pursuant to the approval by its ordinary shareholders' meeting and relevant regulatory authorities.

The carrying amount of preference shares, net of direct issuance expenses, was RMB34,955 millions as at 31 December 2019. All the proceeds received is used to replenish Other Tier-One capital in order to increase the Bank's Tier-One capital adequacy ratio (Note 56). Dividends are non-cumulative and where payable are paid annually. Dividend rate at the time of issue is 3.8% per annum and will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 1.30%.

43 Other equity instruments (Continued)

(i) Preference shares (Continued)

As authorised by the ordinary shareholders' Annual General Meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has redemption option when specified conditions as stipulated in the offering documents of preference shares are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon occurrence of the triggering events as stipulated in paragraph 2 (3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No.56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price of RMB7.07 per share, partially or entirely. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalisation of reserves and new issuances of ordinary shares, subject to terms and formulae provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary shareholders.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position; and are qualified as Additional Tier-One Capital Instruments in accordance with the CBIRC requirements.

(ii) Undated capital bonds

With the approvals by relevant regulatory authorities in China, the Bank issued RMB40 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 9 December 2019, and completed the issuance on 11 December 2019. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first 5 years is 4.20%, resetting every 5 years.

The duration of the Bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date 5 years after the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above Bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bonds are paid by non-cumulative interest. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilize the proceeds from the cancelled distribution to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

These undated capital bonds are classified as equity instruments, and presented as equity in the consolidated statement of financial position; and are qualified as Additional Tier-One Capital Instruments in accordance with the CBIRC requirements.

(Amounts in millions of Renminbi unless otherwise stated)

43 Other equity instruments (Continued)

(ii) Undated capital bonds (Continued)

Interests attributable to equity instruments' holder:

	31 December 2019	31 December 2018
Total equity attribute to equity holders of the parent company	**517,311**	436,661
Equity attribute to ordinary equity holders of the parent company	**439,228**	401,706
Equity attribute to other equity instruments holders of the parent company	**78,083**	34,955
— Profit for the period/Dividend distribution for the period	**1,330**	1,330
Total equity attribute to non-controlling interests	**15,213**	16,425
Equity attribute to non-controlling interests of ordinary shares	**8,546**	7,933
Equity attribute to non-controlling interests of other equity instruments	**6,667**	8,492

For the year ended 31 December 2019, the Bank paid RMB1,330 million dividend to the preference shareholders (for the year ended 31 December 2018: RMB1,330 million).

44 Capital reserves

	31 December 2019	31 December 2018
Share premium	**58,896**	58,896
Other reserves	**81**	81
Total	**58,977**	58,977

45 Other comprehensive income

Other comprehensive income comprises items that will not be reclassified subsequently to profit or loss, such as net changes on the measurement of defined benefit plan (Note 37) and fair value changes on financial investments designated at fair value through other comprehensive income, and items that may be reclassified subsequently to profit or loss, such as fair value changes on financial assets at fair value through other comprehensive income, credit impairment allowance on financial assets at fair value through other comprehensive income and exchange differences on translation.

(Amounts in millions of Renminbi unless otherwise stated)

46 Surplus reserve

	31 December 2019	31 December 2018
As at 1 January	**34,450**	30,244
Appropriations	**4,559**	4,206
As at 31 December	**39,009**	34,450

Under the relevant PRC Laws, the Bank and the Bank's subsidiaries in Mainland China are required to appropriate 10% of its profit for the year, as determined under regulations issued by the regulatory bodies of the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year to the discretionary surplus reserve upon approval by ordinary shareholders at the Annual General Meeting. The Bank makes its appropriation on an annual basis.

Subject to the approval of ordinary shareholders, statutory surplus reserves may be used for replenishing accumulated losses, if any, and may be converted into share capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before the process.

47 General reserve

	31 December 2019	31 December 2018
As at 1 January	**74,255**	74,251
Appropriations	**7,280**	4
As at 31 December	**81,535**	74,255

Pursuant to relevant Ministry of Finance ("MOF") notices, the Bank and the Group's banking subsidiaries in Mainland China are required to set aside a general reserve to cover potential losses against their assets. The Bank and the Group make its appropriation on an annual basis.

48 Profit appropriations and retained earnings

(a) Profit appropriations and distributions other than dividends declared during the year

	Notes	**31 December 2019**	31 December 2018
Appropriations to			
— surplus reserve	46	**4,559**	4,206
— general reserve	47	**7,280**	4
As at 31 December		**11,839**	4,210

The Bank appropriated RMB4,559 million to statutory surplus reserve fund for the year of 2019, and appropriated RMB7,278 million to general reserve. The Group's subsidiary, Lin'an rural bank, made appropriations to general reserve in accordance with relevant regulatory requirements.

(b) In accordance with the resolution approved in the Annual General Meeting of the Bank on 24 May 2019, a total amount of approximately RMB11,255 million (RMB2.30 per 10 shares) were distributed in the form of cash dividend to the ordinary shareholders on 22 July 2019.

(Amounts in millions of Renminbi unless otherwise stated)

48 Profit appropriations and retained earnings (Continued)

(c) In accordance with the resolution approved in the Annual General Meeting of the Bank on 27 August 2019, a total amount of approximately RMB1,330 million (calculated by the bank using the agreed dividend rate of 3.8% with RMB3.80 per share) were distributed in the form of cash dividend to the preference shareholders on 28 October 2019.

(d) On 26 March 2020, the Board of Directors proposed a cash dividend of RMB2.39 per 10 shares in respect of the year 2019. Subject to the approval of the ordinary shareholders at the Annual General Meeting, approximately RMB11,695 million will be payable to those on the register of ordinary shareholders as at the relevant record date. This proposal is a non-adjusting event after the reporting period and has not been recognised as liability as at 31 December 2019.

(e) As at 31 December 2019, the retained earnings included the statutory surplus reserves of certain subsidiaries of RMB260 million (as at 31 December 2018: RMB200 million), of which RMB82 million (as at 31 December 2018: RMB56 million) was the appropriation made by the subsidiaries for the year ended 31 December 2019. Such statutory surplus reserves in the retained earnings cannot be distributed.

49 Non-controlling interests

Non-controlling interests included ordinary shareholders held by non-controlling interest in subsidiaries and other equity instrument holders' interests. As at 31 December 2019, other equity instrument holders' interest amounted to RMB6677 million representing other equity instruments issued by CBI on 11 October 2016, and 6 November 2018, an entity ultimately controlled by the Group. Such instruments are perpetual non-cumulative subordinated additional Tier- One capital securities (the "Capital Securities").

Financial instruments in issue	Issue Date	Nominal Value	First Call Date	Coupon Rate	Payment Frequency
Capital Securities	11 October 2016	USD500 millions	11 October 2021	4.25% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 3.107% per annum	Semi-annually
Capital Securities	6 November 2018	USD500 millions	6 November 2023	7.10% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 4.151% per annum	Semi-annually

CBI may, at its sole discretion, elect to cancel any payment of coupon, in whole or in part, or redeem Capital Securities in whole on the first call date and any subsequent coupon distribution date, where the holders of these Capital Securities have no right to require CBI to redeem. These Capital Securities listed above are classified as other equity instruments.

A distribution payment of RMB470 million was paid to the holders of the Capital Securities during the year ended 31 December 2019 (the year ended 31 December 2018: RMB289 million).

On 22 April 2019, upon the approval of Hong Kong Monetary Authority and in accordance with the relevant provisions of the Capital Securities, CIFH made early redemption in full of the USD300 million Capital Securities issued on 22 April 2014.

(Amounts in millions of Renminbi unless otherwise stated)

50 Notes to consolidated statement of cash flows

Cash and cash equivalents

	31 December 2019	31 December 2018
Cash	**6,345**	6,188
Cash equivalents		
— Surplus deposit reserve funds	**97,602**	128,423
— Deposits with banks and non-bank financial institutions due within three months when acquired	**39,906**	88,801
— Placements with and loans to banks and non-bank financial institutions due within three months when acquired	**134,321**	124,923
— Investment securities due within three months when acquired	**64,275**	27,674
Subtotal	**336,104**	369,821
Total	**342,449**	376,009

51 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of loan commitments, credit card commitments, financial guarantees, letters of credit and bank acceptances.

Loan commitments and credit card commitments represent the undrawn amount of approved loans with signed contracts and credit card limits. Financial guarantees and letters of credit represent guarantees provided by the Group to guarantee the performance of customers to third parties. Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects the majority acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by categories are set out below. The amounts disclosed in respect of loan commitments and credit card commitments assume that amounts are fully drawn down. The amounts of guarantees, letters of credit and acceptances represent the maximum potential loss that would be recognised at the reporting date if counterparties failed to perform as contracted.

	31 December 2019	31 December 2018
Contractual amount		
Loan commitments		
— with an original maturity within one year	**6,789**	4,521
— with an original maturity of one year or above	**45,422**	35,508
Subtotal	**52,211**	40,029
Bank acceptances	**426,226**	393,851
Credit card commitments	**545,503**	434,590
Letters of guarantee issued	**147,154**	158,813
Letters of credit issued	**103,981**	92,924
Total	**1,275,075**	1,120,207

(Amounts in millions of Renminbi unless otherwise stated)

51 Commitments and contingent liabilities (Continued)

(b) Credit commitments analysed by credit risk weighted amount

	31 December 2019	31 December 2018
Credit risk weighted amount of credit commitments	**398,617**	370,529

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of counterparties and the maturity characteristics. The risk weighting used range from 0% to 150%.

(c) Capital commitments

(i) The Group had the following authorised capital commitments in respect of property, plant and equipment at the reporting date:

	31 December 2019	31 December 2018
For the purchase of property and equipment		
Contracted for	**3,457**	5,356

(ii) The Group announced the approval of the Board of Directors on the establishment of CITIC Bank Financial Management Co., Ltd. (hereinafter "CITIC Bank Financial Management") by the Bank on 13 December 2018, and obtained the approval on establishment from the CBIRC On 4 December 2019. The Bank plans to contribute no more than RMB5 billion, and after the completion of setup preparation, will apply to the CBIRC for its approval on the commencement of business in accordance with relevant regulations and procedures.

(d) Outstanding contingencies including litigation and disputes

The Group has assessed and has made provisions for any probable outflow of economic benefits in relation to commitments and contingent liabilities at the reporting date in accordance with its accounting policies including litigation and disputes.

As at 31 December 2019, the Group was involved in certain potential and pending litigation as defendant with gross claims of RMB2,436 million (as at 31 December 2018: RMB271 million). Based on the opinion of internal and external legal counsels, the Group had made litigation provisions of RMB8.61 million for the year ended 31 December 2018 (for the year ended 31 December 2018: RMB220 million) against these litigation (Note 40). Such contingencies, including litigation and disputes, will not have material impact on financial position and operations of the Bank.

(Amounts in millions of Renminbi unless otherwise stated)

51 Commitments and contingent liabilities (Continued)

(e) Bonds redemption obligations

As an underwriting agent of PRC treasury bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of treasury bonds underwritten and sold by the Group, but not yet matured at the reporting date:

	31 December 2019	31 December 2018
Redemption commitment for PRC treasury bonds	**11,272**	11,101

The original maturities of these bonds vary from one to five years. Management of the Group expects the amount of redemption before maturity dates of these bonds will not be material. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

(f) Underwriting obligations

As at 31 December 2019, the Group did not have unfulfilled commitment in respect of securities underwriting business. (as at 31December 2018: Nil)

52 Collateral

(a) Assets pledged

(i) The carrying amount of financial assets pledged as collateral in the Group's ordinary course of businesses, including repurchase agreements and borrowings from central banks, are disclosed as below:

	31 December 2019	31 December 2018
Debt securities	**367,616**	439,272
Discounted bills	**76,590**	33,955
Others	**181**	172
Total	**444,387**	473,399

As at 31 December 2019 and 31 December 2018, the Group's liabilities related to the above collateral were due within 12 months from the effective dates of these agreements and title of these collateral was not transferred to counterparties.

(ii) In addition, as at 31 December 2019, the Group pledged debt securities and deposits with banks and other financial institutions with carrying amount totalling RMB840million (as at 31 December 2018: RMB1,335 million) as collateral for derivative transactions and guarantee funds to exchanges. Title of these pledged assets was not transferred to counterparties.

(b) Collateral accepted

The Group received debt securities as collateral for financial assets held under resale agreements as set out in Note 21. Under the terms of theses agreements, the Group could not resell or re-pledge certain parts of these collateral unless in the event of default by the counterparties. As at 31 December 2019, there was no collateral that can be resold or re-pledged by the Group (as at 31 December 2018: Nil). During the year ended 31 December 2019, the Group did not resell or re-pledge any of these collateral (year ended 31 December 2018: Nil).

(Amounts in millions of Renminbi unless otherwise stated)

53 Transactions on behalf of customers

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals, as well as entrusted provident housing fund mortgage business services. All entrusted loans are made under the instruction or at the direction of these corporations, individuals or provident housing fund centre and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group does not expose to credit risk in relation to these transactions, but acts as an agent to hold and manage these assets and liabilities at the instruction of the entrusting parties and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised on the consolidated statement of financial position. Income received and receivable for providing these services is included in the consolidated statement of profit or loss as fee income.

At the reporting date, the entrusted assets and liabilities were as follows:

	31 December 2019	31 December 2018
Entrusted loans	**441,142**	640,227
Entrusted funds	**441,143**	640,229

(b) Wealth management services

The Group's wealth management services to customers mainly represent sale of wealth management products, including principal guaranteed (Note 59 (c)) and non-principal or interest guaranteed wealth management products (Note 59 (b)), to corporate and personal banking customers.

The funds raised by non-principal guaranteed wealth management products from investors are invested in various investments, including debt securities and money market instruments, credit assets and other debt instruments, equity instruments etc. Credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers. The Group only earns commission which represents the charges on customers in relation to the provision of custodian, sale and management services. Income is recognised in the consolidated statement of profit or loss as commission income. The Group has entered into placements transactions at market interest rates with the wealth management products vehicles (Note 59 (b)).

As at 31 December 2019, the amount of total assets invested by these non-principal guaranteed wealth management products issued by the Group was disclosed in Note 59 (b).

54 Segment reporting

Measurement of segment assets and liabilities, and segment income and expenses are based on the Group's accounting policies.

Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "External net interest income/expenses".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets and liabilities do not include deferred tax assets and liabilities. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total costs incurred during the year to acquire assets (including both tangible assets and intangible assets) whose estimated useful lives are over one year.

(a) Business segments

The Group has the following main business segments for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and non-financial institutions, as well as conducts investment banking businesses and international businesses. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers and small enterprises. The products and services comprise loans, deposit services, securities agency services, remittance and settlement services and guarantee services.

Treasury business

This segment conducts capital markets operations, inter-bank operations, which, specifically, includes inter-bank money market transactions, repurchase transactions, and investments and trading in debt instruments. Furthermore, treasury business segment also carries out derivatives and forex trading both for the Group and for customers.

Others and unallocated

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis. This segment also manages the Group's liquidity position.

In 2019, for internal management purposes, the Bank adjusted the presentation of cash instalment income from the credit card business and the business segments of the Bank and some subsidiaries, and restated the comparative figures.

(Amounts in millions of Renminbi unless otherwise stated)

54 Segment reporting (Continued)

(a) Business segments (Continued)

	Year ended 31 December 2019				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
External net interest income/(expense)	52,199	70,028	28,032	(22,988)	127,271
Internal net interest income/(expense)	26,809	(38,392)	(20,552)	32,135	—
Net interest income	79,008	31,636	7,480	9,147	127,271
Net fee and commission income/(expense)	12,591	39,017	929	(6,153)	46,384
Other net income (Note (i))	2,191	631	11,067	337	14,226
Operating income	93,790	71,284	19,476	3,331	187,881
Operating expenses					
— depreciation and amortisation	(1,938)	(1,119)	(1,399)	(1,610)	(6,066)
— others	(18,012)	(26,462)	(2,340)	(1,288)	(48,102)
Credit impairment losses	(51,076)	(24,070)	(796)	(737)	(76,679)
Impairment losses on other assets	—	—	—	(576)	(576)
Revaluation gain on investment properties	—	—	—	(15)	(15)
Share of loss of associates and joint ventures	—	—	—	102	102
Profit before tax	22,764	19,633	14,941	(793)	56,545
Income tax					(7,551)
Net profit					48,994
Capital expenditure	1,484	891	1,074	999	4,448

	Year ended 31 December 2019				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
Segment assets	2,305,553	1,315,035	1,763,646	1,330,432	6,714,666
Interest in associates and joint ventures	—	—	112	3,560	3,672
Deferred tax assets					32,095
Total asset					6,750,433
Segment liabilities	3,274,306	1,876,042	864,467	203,084	6,217,899
Deferred tax liabilities					10
Total liabilities					6,217,909
Off-balance sheet credit commitments	726,272	545,503	—	—	1,275,075

(Amounts in millions of Renminbi unless otherwise stated)

54 Segment reporting (Continued)

(a) Business segments (Continued)

	Year ended 31 December 2018				
	Corporate Banking	Personal Banking	Treasury Business	Others and Unallocated	Total
External net interest income/(expense)	53,524	60,669	26,282	(27,563)	112,912
Internal net interest income/(expense)	20,376	(32,179)	(18,935)	30,738	—
Net interest income	73,900	28,490	7,347	3,175	112,912
Net fee and commission income/(expense)	11,253	24,699	1,123	(67)	37,008
Other net income (Note (i))	2,670	4,336	8,242	598	15,846
Operating income	87,823	57,525	16,712	3,706	165,766
Operating expenses					
— depreciation and amortisation	(1,040)	(552)	(640)	(710)	(2,942)
— others	(19,136)	(25,055)	(3,356)	(2,111)	(49,658)
Credit impairment losses	(42,074)	(15,295)	(187)	(330)	(57,886)
Impairment losses on other assets	—	—	—	(347)	(347)
Revaluation gain on investment properties	—	—	—	35	35
Share of loss of associates and joint ventures	—	—	—	(642)	(642)
Profit before tax	25,573	16,623	12,529	(399)	54,326
Income tax					(8,950)
Net profit					45,376
Capital expenditure	1,394	769	851	1,089	4,103

	Year ended 31 December 2018				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
Segment assets	2,328,330	1,155,488	1,488,115	1,067,726	6,039,659
Interest in associates and joint ventures	—	—	118	3,763	3,881
Deferred tax assets					23,174
Total asset					6,066,714
Segment liabilities	3,046,177	1,538,976	716,638	311,821	5,613,612
Deferred tax liabilities					16
Total liabilities					5,613,628
Off-balance sheet credit commitments	1,027,283	92,924	—	—	1,120,207

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging loss and other operating income.

54 Segment reporting (Continued)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities. The Bank's principal subsidiaries, CNCB Investment and CIFH are registered and operating in Hong Kong. The other subsidiaries, Lin'an Rural Bank and CFLL are registered in Mainland China.

In presenting information by geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas where Tier-One branches of the Group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo, as well as Lin'an Rural Bank;

— "Pearl River Delta and West Strait" refers to the following areas where Tier-One branches of the Group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou, Xiamen, and Haikou;

— "Bohai Rim" refers to the following areas where Tier-One branches of the Group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang, Jinan and CFLL;

— "Central" region refers to the following areas where Tier-One branches of the Group are located: Hefei, Zhengzhou, Wuhan, Changsha, Taiyuan and Nanchang;

— "Western" region refers to the following areas where Tier-One branches of the Group are located: Chengdu, Chongqing, Xi'an, Kunming, Nanning, Hohhot, Urumqi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

— "Northeastern" region refers to the following areas where Tier-One branches of the Group is located: Shenyang, Changchun and Harbin;

— "Head Office" refers to the headquarter of the Bank and the Credit Card Center; and

— "Overseas" includes all the operations of London branch, CNCB Investment, CIFH and its subsidiaries.

(Amounts in millions of Renminbi unless otherwise stated)

54 Segment reporting (Continued)

(b) Geographical segments (Continued)

	31 December 2019									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	35,906	22,013	6,971	21,000	21,457	2,331	11,490	6,103	–	127,271
Internal net interest income/(expense)	(9,879)	(5,000)	13,226	(6,403)	(9,536)	(501)	18,314	(221)	–	–
Net interest income	26,027	17,013	20,197	14,597	11,921	1,830	29,804	5,882	–	127,271
Net fee and commission income	2,852	2,421	4,232	1,634	1,475	325	32,132	1,313	–	46,384
Other net income (Note (i))	593	199	467	130	175	37	11,753	872	–	14,226
Operating income	29,472	19,633	24,896	16,361	13,571	2,192	73,689	8,067	–	187,881
Operating expense										
– depreciation and amortisation	(933)	(755)	(894)	(695)	(842)	(228)	(1,190)	(529)	–	(6,066)
– others	(8,004)	(5,844)	(7,448)	(5,015)	(4,642)	(1,221)	(12,978)	(2,950)	–	(48,102)
Credit impairment losses	(9,475)	(9,808)	(13,369)	(6,247)	(10,820)	(3,263)	(22,527)	(1,170)	–	(76,679)
Impairment losses on other assets	(169)	–	(205)	(67)	(71)	(19)	–	(45)	–	(576)
Revaluation gain on investment properties	–	–	–	–	–	–	–	(15)	–	(15)
Share of loss of associates and joint ventures	–	–	–	–	–	–	154	(52)	–	102
Profit before tax	10,891	3,226	2,980	4,337	(2,804)	(2,539)	37,148	3,306	–	56,545
Income tax										(7,551)
Profit for the year										48,994
Capital expenditure	475	168	235	125	621	44	2,571	209	–	4,448

	31 December 2019									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,400,247	810,404	1,440,563	656,139	585,993	106,531	2,730,391	327,807	(1,353,409)	6,714,666
Interest in associates and joint ventures	–	–	–	–	–	–	3,027	645	–	3,672
Deferred tax assets										32,095
Total assets										6,750,433
Segment liabilities	1,021,511	624,170	1,212,606	554,658	457,021	94,420	3,312,559	272,066	(1,331,112)	6,217,899
Deferred tax liabilities										10
Total liabilities										6,217,909
Off-balance sheet credit commitments	204,838	149,346	118,966	151,951	82,348	10,047	538,324	19,255	–	1,275,075

(Amounts in millions of Renminbi unless otherwise stated)

54 Segment reporting (Continued)

(b) Geographical segments (Continued)

	Year ended 31 December 2018									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	26,679	17,920	14,234	16,865	17,332	2,334	11,644	5,904	–	112,912
Internal net interest income/(expense)	(3,327)	(300)	6,477	(2,907)	(5,703)	(489)	6,578	(329)	–	–
Net interest income	23,352	17,620	20,711	13,958	11,629	1,845	18,222	5,575	–	112,912
Net fee and commission income	3,047	2,756	4,571	1,603	1,603	341	21,648	1,439	–	37,008
Other net income (Note (i))	991	216	638	112	103	26	12,979	781	–	15,846
Operating income	27,390	20,592	25,920	15,673	13,335	2,212	52,849	7,795	–	165,766
Operating expense										
– depreciation and amortisation	(515)	(266)	(375)	(342)	(419)	(127)	(704)	(194)	–	(2,942)
– others	(7,404)	(5,628)	(7,581)	(5,066)	(5,062)	(1,194)	(14,892)	(2,831)	–	(49,658)
Credit impairment losses	(8,378)	(6,669)	(11,366)	(6,131)	(8,000)	(4,419)	(11,821)	(1,102)	–	(57,886)
Impairment losses on other assets	(113)	(9)	(66)	–	(83)	(9)	–	(67)	–	(347)
Revaluation gain on investment properties	–	–	–	–	–	–	–	35	–	35
Share of loss of associates and joint ventures	–	–	–	–	–	–	(288)	(354)	–	(642)
Profit before tax	10,980	8,020	6,532	4,134	(229)	(3,537)	25,144	3,282	–	54,326
Income tax										(8,950)
Profit for the year										45,376
Capital expenditure	331	1,017	171	144	311	42	1,641	446	–	4,103

	31 December 2018									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,184,230	812,520	1,255,616	594,775	539,071	97,329	2,442,818	337,570	(1,224,270)	6,039,659
Interest in associates and joint ventures	–	–	–	–	–	–	2,878	1,003	–	3,881
Deferred tax assets										23,174
Total assets										6,066,714
Segment liabilities	1,191,150	800,478	1,228,822	596,075	524,880	106,680	2,084,629	282,868	(1,201,970)	5,613,612
Deferred tax liabilities										16
Total liabilities										5,613,628
Off-balance sheet credit commitments	189,531	133,112	125,076	140,766	77,284	10,914	427,397	16,127	–	1,120,207

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging loss and other operating income.

55 Financial risk management

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

— Credit risk: Credit risk represents the potential loss that may arise from the failure of a customer or counterparty to meet its contractual obligations or commitments to the Group.

— Market risk: Market risk arises from unfavourable changes in market prices (interest rate, exchange rate, stock price or commodity price) that lead to a loss of on-balance sheet or off-balance sheet business in the Group.

— Liquidity risk: Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds.

— Operational risk: Operational risk arises from inappropriate or problematic internal procedures, personnel, IT systems, or external events, such risk includes legal risk, but excluding strategy risk and reputational risk.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The Group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with relevant policies and procedures.

(a) Credit risk

Credit risk management

Credit risk refers to the risk of loss caused by default of debtor or counterparty. Credit risk also occurs when the Group makes unauthorised or inappropriate loans and advances to customers, financial commitments or investments. The credit risk exposure of the Group mainly arises from the Group's loan and advance to customers, treasury businesses and off-balance sheet items.

The Group has standardised management on the entire credit business process including loan application and its investigation, approval and granting of loan, and monitoring of non-performing loans. Through strictly standardising the credit business process, strengthening the whole process management of pre-loan investigation, credit rating and credit granting, examination and approval, loan review and post-loan monitoring, improving the risk of slow-release of collateral, accelerating the disposal of non-performing loans, and promoting the upgrading and transformation of credit management system, the credit risk management of the Group has been comprehensively improved.

The Group writes off the recoverable financial asset when it cannot reasonably expect to recover all or part of the asset. Signs indicating that the recoverable amount cannot be reasonably expected include: (1) the enforcement has been terminated, and (2) the Group's recovery method is to confiscate and dispose of the collateral, but the expected value of the collateral cannot cover the entire principal and interest.

In addition to the credit risk to the Group caused by credit assets, the Group manages the credit risk for treasury businesses through prudently selecting peers and other financial institutions with comparable credit levels as counterparties, balancing credit risk with returns on investment, comprehensively considering internal and external credit rating information, granting credit hierarchy, and using credit management system to review and adjust credit commitments on a timely basis, etc. In addition, the Group provides off-balance sheet commitment and guarantee businesses to customers, so it is possible for the Group to make payment on behalf of the customer in case of customer's default and bear risks similar to the loan. Therefore, the Group applies similar risk control procedures and policies to such business to reduce the credit risk.

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses

Since 1 January 2018, the Group adapts, the "expected credit loss model" on its debt instruments which are classified as financial assets of debt instruments and off balance sheet credit assets measured at amortised cost and at fair value through other comprehensive income in accordance with the provisions of IFRS 9.

For financial assets that are included in the measurement of expected credit losses ("ECL"), the Group evaluates whether the credit risks of related financial assets have increased significantly since the initial recognition. The "three-stage" impairment model is used to measure their allowances for impairment losses respectively to recognise ECL and their movements:

Stage 1: Financial instruments with no significant increase in credit risk since initial recognition will be classified as "stage 1" and the Group continuously monitors their credit risk. The allowance of impairment losses of financial instruments in Stage 1 is measured based on the ECL in the next 12 months, which represents the proportion of the ECL in the lifetime due to possible default events in the next 12 months.

Stage 2: If there is a significant increase in credit risk from initial recognition, the Group transfers the related financial instruments to Stage 2, but it will not be considered as credit-impaired instruments. The ECL of financial instruments in Stage 2 is measured based on the lifetime ECL.

Stage 3: If there is a credit impairment in financial instruments, it will be moved to Stage 3. The ECL of financial instruments in Stage 3 is measured based on the lifetime ECL.

POCI financial assets refers to financial assets that are credit-impaired at initial recognition. Allowance for impairment losses on these assets are the lifetime ECL.

The Group measures the ECL for financial assets through testing models, which includes expected loss model and discounted cash flows model. The expected loss model method is applicable to assets related to personal client, assets related to corporate client in stage 1 and 2, interbank investments and off-balance sheet credit assets. Discounted cash flows model is applicable to assets related to corporate client in stage 3.

The Group estimate the ECL in accordance with the IFRS 9, the key judgments and assumptions adopted by the Group are as follows:

(1) Significant increase in credit risk

On each reporting date, the Group evaluates whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. When one or more on quantitative or qualitative threshold, or upper limit are triggered, the credit risk of financial instruments would be considered as increased significantly.

By setting quantitative and qualitative threshold, and upper limit, the Group determines whether the credit risk of financial instruments has increased significantly since initial recognition. The judgment mainly includes (1) credit risk of borrowers declining to Grade 15 or below since initial recognition; (2) adverse changes in business, financial or operating conditions of borrowers and in economic conditions; (3) significant increase in other credit risk. For the borrowers who are 30 days (exclusive) to 90 days (inclusive) past due on their contractual payments (including principal and interest), the Group considers that their credit risk has increased significantly and classifies them to stage 2.

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(2) Definition of credit-impaired assets

When credit impairment occurred, the Group defines that the financial asset is in default. In general, a financial asset that is overdue for more than 90 days is considered to be in default.

When one or more events that adversely affect the expected future cash flow of a financial asset occurs, the financial asset becomes a credit-impaired financial asset. Evidence of credit-impaired financial assets includes the following observable information:

- The issuer or borrower is in significant financial difficulties;
- The borrower is in breach of financial covenant(s) such as default or overdue in repayment of interests or principle, etc;
- The creditor gives the debtor no concession under any other circumstances, for economic or contractual reasons relating to the debtor's financial difficulties;
- It is becoming probably that the borrower will enter bankruptcy or other debt restructuring;
- An active market for that financial asset has disappeared because of financial difficulties from issuer or borrower;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The Group's default definition has been consistently applied to the modeling of default probability, default risk exposure and default loss rate in the Group's ECL calculation process.

(3) Inputs for measurement of expected credit losses

The expected credit loss is measured on either a 12 months or lifetime basis depending on whether a significant increase in credit risk has occurred or whether an asset is considered to be credit-impaired. Related definitions are as follows:

- The probability of default ("PD") represents the likelihood of a borrower defaulting on its financial obligations, either over the next 12 months or over the remaining lifetime of the obligation.
- Loss given default ("LGD") represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default and is calculated on a 12-month or lifetime basis.
- Exposure at default ("EAD") is based on the amounts that the Group expects to be owned at the time of default, over the next 12 months or over the remaining lifetime of the obligation.

The Group regularly monitors and reviews the assumptions related to the calculation of ECL, including the PD and the change in the value of collateral over time.

The Group categorises exposures with similar risk characteristics and estimates the PD, LGD, EAD by the exposures respectively. The Group has obtained sufficient information to ensure its statistical reliability. ECL of the Group is measured based on the continuous assessment and follow-up of individuals and their financial status.

During the reporting period, there were no significant changes in the estimated technology or key assumptions.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(4) Forward-looking information

The assessment of significant increase in credit risk and the calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each asset portfolio.

These economic variables and their associated impact on the PD vary by financial instruments. Expert judgment has been applied in this process, forecasts of these economic variables are estimated by the experts of the Group on a quarterly basis, and the impact of these economic variables on the PD and the exposure at default was determined by statistical regression analysis.

In addition to the neutral economic scenario, the Group determine the possible scenarios and their weightings by a combination of statistical analysis and expert judgment. The Group measures ECL as either a probability weighted 12 months ECL (stage 1) or a probability weighted lifetime ECL (stage 2 and stage 3). These probability-weighted ECL are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

Macroeconomic scenario and weighting information

The Group has built a macro forecast model, and performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio, such as domestic Gross Domestic Product ("GDP"), electricity production and registered urban unemployment rate, etc.

In 2019, the Group has considered different macroeconomic scenarios, and the key macroeconomic scenario assumptions in estimating ECL are set out below:

Variables	**Range**
Growth rate of domestic GDP, year on year	5.70%-6.41%
Accumulated electricity production, year on year	1.76%-7.24%
Registered urban unemployment rate	3.56%-3.73%

Adopt top-down development approach, the Group has established models including different key economic indicators is established with the new actual default rate of regression model, and use the prediction results and historic default information adjustment coefficient calculation, then realise the provisions for forward-looking adjustment.

The Group considers internal and external data, experts predict, and the best estimate of future, to determine the weightings in positive, neutral and negative scenarios. Neutral is defined as the most likely to happen in the future, as compare to other scenarios. Optimistic scenario and pessimistic scenario represents the possible scenario that is better off or worse off scenario compared to neutral scenario respectively. Currently, the weighting of neutral scenario is equal to the sum of the weightings of other scenarios. Following this assessment, the Group measures ECL as a weighted average probability of ECL in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

For portfolio cannot establish regression model, such as customer default rate is extremely low, or no suitable internal rating data portfolio, etc., the Group mainly uses the regression model has been established a similar combination than expected losses, in order to increase the coverage of existing impairment model.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) *Sensitivity information and management's overlay*

The change of the inputs for measurement of ECL and forward-looking information impact the assessment of significant increase in credit risk and measurement of credit loss.

As at 31 December 2019, assuming the weighting of optimistic scenario increased by 10% while the weighting of neutral scenario decreased by 10%, the allowance for credit impairment losses of the Group will be decreased by RMB2.345 billion (as at 31 December 2018: RMB2.868 billion); assuming the weighting of pessimistic scenario increased by 10% while the weighting of neutral scenario decreased by 10%, the allowance for credit impairment losses of the Group will be increased by RMB1.896 billion (as at 31 December 2018: RMB2.166 billion);

For new changes in the external economic situation not captured by the model, the Group has also considered and increased the allowances for expected credit losses to further improve its risk mitigation capacity.

Allowance for impairment losses of performing loans and advances to customers consists of ECL from Stage 1 and Stage 2 which is measured based on 12 months ECL and lifetime ECL respectively. Loans and advances to customers in Stage 1 transfer to Stage 2 when there is a significant increase in credit risk. The following table presents the estimated impact as if the ECL of all performing loans and advancs to customers are measured based on 12 months ECL, holding all other risk profile constant.

	31 December 2019	31 December 2018
Performing loans and advances to customers		
Allowance of impairment losses assuming loans in stage 2 transfer to stage 1	**59,919**	53,070
Impact of stage transfers	**2,098**	1,790
Current allowance for impairment losses	**62,017**	54,860

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk at the reporting date without taking into consideration of any collateral held or other credit enhancement is represented by the net balance of each type of financial assets in the consolidated statement of financial position after deducting any allowance for impairment losses. A summary of the maximum exposure is as follows:

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Not applicable	Total
Balances with central banks	456,813	—	—	—	456,813
Deposits with bank and non-bank financial institutions	121,297	—	—	—	121,297
Placements with and loans to banks and non-bank financial institutions	204,547	—	—	—	204,547
Derivative financial assets	—	—	—	17,117	17,117
Financial assets held under resale agreements	9,954	—	—	—	9,954
Interest receivables					
Loans and advances to customers	3,798,800	71,130	15,757	6,915	3,892,602
Financial investments					
— at fair value through profit or loss	—	—	—	317,546	317,546
— at amortised cost	907,906	10,458	5,870	—	924,234
— at fair value through other comprehensive income	628,457	123	200	—	628,780
— designated at fair value through other comprehensive income	—	—	—	3,036	3,036
Other financial assets	31,138	2,118	728	—	33,984
Subtotal	6,158,912	83,829	22,555	344,614	6,609,910
Credit commitments	1,266,571	8,316	188	—	1,275,075
Maximum credit risk exposure	7,425,483	92,145	22,743	344,614	7,884,985

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(i) Maximum credit risk exposure (Continued)

	31 December 2018				
	Stage 1	Stage 2	Stage 3	Not applicable	Total
Balances with central banks	532,520	—	—	—	532,520
Deposits with bank and non-bank financial institutions	99,153	—	—	—	99,153
Placements with and loans to banks and non-bank financial institutions	176,159	—	1	—	176,160
Derivative financial assets	—	—	—	31,991	31,991
Financial assets held under resale agreements	10,790	—	—	—	10,790
Interest receivables	—	—	—	—	—
Loans and advances to customers(note (i))	3,425,701	70,888	19,061	—	3,515,650
Financial investments					
— at fair value through profit or loss	—	—	—	308,872	308,872
— at amortised cost	773,878	3,738	622	—	778,238
— at fair value through other comprehensive income	510,020	105	221	—	510,346
— designated at fair value through other comprehensive income	—	—	—	2,707	2,707
Other financial assets	17,440	2,191	4,667	—	24,298
Subtotal	5,545,661	76,922	24,572	343,570	5,990,725
Credit commitments	1,114,830	5,257	120	—	1,120,207
Maximum credit risk exposure	6,660,491	82,179	24,692	343,570	7,110,932

According to the quality of assets, the Group classified the credit rating of the financial assets as risk level 1, risk level 2, risk level 3 and default. "Risk level 1" refers to customers who have competitive advantages among local peers with good foundations, outstanding operation results, strong operational and financial strength, and/or good corporate governance structure. "Risk level 2" refers to customers who are in the middle tier among local peers with fair foundations, fair operation results, fair operational and financial strength, and/or fair corporate governance structure. "Risk level 3" refers to customers who are in the lower-tier among local peers, with weak foundations, poor operation results, poor operational and financial strength, and/or deficiency in corporate governance structure. The definition of "Default" is same as the definition of credit-impaired. The credit rating is used for internal risk management.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(i) Maximum credit risk exposure (Continued)

The following table provides an analysis of loans and advances to customers and financial investments that are included in the ECL assessment according to the credit risk level. The book value of the following financial assets is the Group's maximum exposure to credit risk for these assets.

	31 December 2019						
	Risk level 1	Risk level 2	Risk level 3	Default	Subtotal	Allowance for impairment losses	Net balance
Loans and advances to customers (Note(i))							
Stage 1	**3,143,219**	**621,373**	**69,770**	**—**	**3,834,362**	**(35,562)**	**3,798,800**
Stage 2	**2,154**	**11,153**	**83,911**	**—**	**97,218**	**(26,088)**	**71,130**
Stage 3	**—**	**—**	**—**	**69,596**	**69,596**	**(53,839)**	**15,757**
Financial investments at amortised cost							
Stage 1	**830,071**	**80,948**	**501**	**—**	**911,520**	**(3,614)**	**907,906**
Stage 2	**—**	**10,792**	**—**	**—**	**10,792**	**(334)**	**10,458**
Stage 3	**—**	**—**	**—**	**8,698**	**8,698**	**(2,828)**	**5,870**
Financial investments at fair value through other comprehensive income							
Stage 1	**577,688**	**50,769**	**—**	**—**	**628,457**	**(1,331)**	**628,457**
Stage 2	**—**	**123**	**—**	**—**	**123**	**(3)**	**123**
Stage 3	**—**	**—**	**—**	**200**	**200**	**(297)**	**200**
Maximum credit risk exposure	**4,553,132**	**775,158**	**154,182**	**78,494**	**5,560,966**	**(123,896)**	**5,438,701**

	31 December 2018						
	Risk level 1	Risk level 2	Risk level 3	Default	Subtotal	Allowance for impairment losses	Net balance
Loans and advances to customers (Note(i))							
Stage 1	2,713,135	683,890	60,616	—	3,457,641	(31,940)	3,425,701
Stage 2	414	9,373	83,889	—	93,676	(22,788)	70,888
Stage 3	—	—	—	65,433	65,433	(46,372)	19,061
Financial investments at amortised cost							
Stage 1	671,939	104,619	—	—	776,558	(2,680)	773,878
Stage 2	—	3,890	—	—	3,890	(152)	3,738
Stage 3	—	—	—	1,160	1,160	(538)	622
Financial investments at fair value through comprehensive income							
Stage 1	493,858	16,162	—	—	510,020	(727)	510,020
Stage 2	—	105	—	—	105	(2)	105
Stage 3	—	—	—	221	221	(310)	221
Maximum credit risk exposure	3,879,346	818,039	144,505	66,814	4,908,704	(105,509)	4,804,234

Note:

Loans and advances to customers includes loans and advances to customers measured at fair value through other comprehensive income, and its corresponding impairment does not include in the "Allowance for impairment losses" as shown in the table.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(ii) Measurement of expected credit losses

The following table shows the movement in carrying value of loans and advances to customers in current reporting period:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2019	**3,457,641**	**93,676**	**65,433**
Movements			
Net transfers out from Stage 1	**(113,799)**	**—**	**—**
Net transfers in to Stage 2	**—**	**42,217**	**—**
Net transfers in to Stage 3	**—**	**—**	**71,582**
Net transactions incurred during the year (Note(i))	**486,777**	**(38,913)**	**(6,733)**
Write-off	**—**	**—**	**(60,686)**
Others (Note(ii))	**3,743**	**238**	**—**
As at 31 December 2019	**3,834,362**	**97,218**	**69,596**

	31 December 2018		
	Stage 1	Stage 2	Stage 3
As at 1 January 2018	3,036,736	92,227	67,933
Movements			
Net transfers out from Stage 1	(84,271)	—	—
Net transfers in to Stage 2	—	11,115	—
Net transfers in to Stage 3	—	—	73,156
Net transactions incurred during the year (Note(i))	495,119	(10,215)	(28,961)
Write-off	—	—	(46,938)
Others (Note(ii))	10,057	549	243
As at 31 December 2018	3,457,641	93,676	65,433

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in carrying value of financial investment in current reporting period:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2019	**1,286,574**	**3,995**	**1,385**
Movements			
Net transfers out from Stage 1	**(11,260)**	—	—
Net transfers in to Stage 2	—	**10,368**	—
Net transfers in to Stage 3	—	—	**892**
Net transactions incurred during the year (Note(i))	**253,869**	**(3,516)**	**6,810**
Write-off	—	—	**(186)**
Others (Note(ii))	**10,794**	**68**	**(3)**
As at 31 December 2019	**1,539,977**	**10,915**	**8,898**

	31 December 2018		
	Stage 1	Stage 2	Stage 3
As at 1 January 2018	1,064,552	347	45
Movements			
Net transfers out from Stage 1	(8,430)	—	—
Net transfers in to Stage 2	—	3,875	—
Net transfers in to Stage 3	—	—	4,555
Net transactions incurred during the year (Note(i))	227,172	(236)	(2,528)
Write-off	—	—	(689)
Others (Note(ii))	3,280	9	2
As at 31 December 2018	1,286,574	3,995	1,385

Notes:

(i) Net transactions incurred during the year mainly includes changes in carrying amount due to purchased, originated or de-recognition excepting for write-off.

(ii) Others include changes of interest receivables, and effect of exchange differences during the year.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in allowance for impairment of loans and advances to customers in current reporting period:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2019	**32,072**	**22,788**	**46,372**
Movements (Note(i))			
Net transfers out from Stage 1	**(2,328)**	**—**	**—**
Net transfers in to Stage 2	**—**	**6,134**	**—**
Net transfers in to Stage 3	**—**	**—**	**42,339**
Net transactions incurred during the year (Note(ii))	**5,769**	**(8,610)**	**(1,738)**
Changes in parameters for the year (Note(iii))	**327**	**5,747**	**21,153**
Write-off	**—**	**—**	**(60,686)**
Others (Notes(iv))	**175**	**29**	**6,413**
As at 31 December 2019	**36,015**	**26,088**	**53,853**

	31 December 2018		
	Stage 1	Stage 2	Stage 3
As at 1 January 2018	30,664	24,674	42,565
Movements (Note(i))			
Net transfers out from Stage 1	(1,870)	—	—
Net transfers in to Stage 2	—	515	—
Net transfers in to Stage 3	—	—	48,640
Net transactions incurred during the year (Note(ii))	4,702	(1,838)	(1,337)
Changes in parameters for the year (Note(iii))	(1,540)	(625)	1,107
Write-off	—	—	(46,938)
Others (Notes(iv))	116	62	2,335
As at 31 December 2018	32,072	22,788	46,372

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in allowance for impairment of financial investment in current reporting period:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2019	**3,407**	**154**	**848**
Movements (Note(i))			
Net transfers out from Stage 1	**(56)**	**—**	**—**
Net transfers in to Stage 2	**—**	**195**	**—**
Net transfers in to Stage 3	**—**	**—**	**138**
Net transactions incurred during the year (Note(ii))	**1,610**	**(12)**	**2,135**
Changes in parameters for the year (Note(iii))	**(23)**	**—**	**190**
Write-off	**—**	**—**	**(186)**
Others (Notes(iv))	**(7)**	**—**	**—**
As at 31 December 2019	**4,945**	**337**	**3,125**

	31 December 2018		
	Stage 1	Stage 2	Stage 3
As at 1 January 2018	3,953	10	31
Movements (Note(i))			
Net transfers out from Stage 1	(239)	—	—
Net transfers in to Stage 2	—	144	—
Net transfers in to Stage 3	—	—	1,843
Net transactions incurred during the year (Note(ii))	370	—	—
Changes in parameters for the year (Note(iii))	(703)	—	(341)
Write-off	—	—	(689)
Others (Notes(iv))	26	—	4
As at 31 December 2018	3,407	154	848

Notes:

(i) Movements in allowance for impairment during the year mainly include the impact of stage changes on the measurement of ECLs.

(ii) Net transactions incurred during the year mainly includes changes in allowance for impairment due to financial assets purchased, originated or de-recognition (excluding write-offs).

(iii) Changes in parameters mainly include changes in risk exposures and the impacts on ECLs due to changes in PDs and LGDs following regular updates on modelling parameters rather than stages movements,.

(iv) Others include recovery of loans written off, changes of impairment losses of interest receivables, and effect of exchange differences.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(iii) Loans and advances to customers analysed by industry sector:

	31 December 2019			31 December 2018		
	Gross balance	%	Loans and advances secured by collateral	Gross balance	%	Loans and advances secured by collateral
Corporate loans						
— rental and business services	352,732	8.8	190,879	282,699	7.8	177,013
— real estate	288,975	7.2	256,672	312,923	8.7	273,640
— water, environment and public utility management	268,942	6.7	124,285	208,922	5.8	106,882
— manufacturing	257,675	6.4	114,547	295,005	8.2	140,199
— transportation, storage and postal services	152,127	3.8	70,036	151,038	4.2	76,331
— wholesale and retail	146,883	3.7	87,346	151,391	4.2	89,064
— construction	94,701	2.4	44,461	79,086	2.2	31,980
— production and supply of electric power, gas and water	66,215	1.7	47,132	72,938	2.0	40,669
— public management and social organisations	12,743	0.3	6,733	13,366	0.4	2,721
— others	314,526	7.8	135,663	313,757	8.6	128,377
Subtotal	1,955,519	48.8	1,077,754	1,881,125	52.1	1,066,876
Personal loans	1,730,814	43.2	1,142,987	1,484,490	41.0	1,000,203
Discounted bills	311,654	7.7	—	242,797	6.7	—
Accrued interest	10,104	0.3	—	8,338	0.2	—
Gross loans and advances to customers	4,008,091	100.0	2,220,741	3,616,750	100.0	2,067,079

(iv) Loans and advances to customers analysed by geographical sector:

	31 December 2019			31 December 2018		
	Gross balance	%	Loans and advances secured by collateral	Gross balance	%	Loans and advances secured by collateral
Bohai Rim (including Head Office)	1,224,035	30.5	420,248	1,123,293	31.1	426,447
Yangtze River Delta	920,846	23.0	592,602	784,722	21.7	507,327
Pearl River Delta and West Strait	598,313	14.9	472,112	549,491	15.2	448,719
Central	534,366	13.3	329,238	463,100	12.8	296,286
Western	474,109	11.8	275,498	433,143	12.0	269,765
Northeastern	77,694	1.9	55,767	75,682	2.1	51,582
Outside Mainland China	168,624	4.3	75,276	178,981	4.9	66,953
Accrued interest	10,104	0.3	—	8,338	0.2	—
Total	4,008,091	100.0	2,220,741	3,616,750	100.0	2,067,079

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(v) Loans and advances to customers analysed by type of security

	31 December 2019	31 December 2018
Unsecured loans	**976,047**	806,154
Guaranteed loans	**489,545**	492,382
Secured loans	**2,220,741**	2,067,079
— loans secured by collateral	**1,822,815**	1,658,484
— pledged loans	**397,926**	408,595
Subtotal	**3,686,333**	3,365,615
Discounted bills	**311,654**	242,797
Accrued interest	**10,104**	8,338
Gross loans and advances to customers	**4,008,091**	3,616,750

(vi) Rescheduled loans and advances to customers

	31 December 2019		31 December 2018	
	Gross balance	**% of total loans and advances**	Gross balance	% of total loans and advances
Rescheduled loans and advances:	**22,792**	**0.57%**	21,588	0.60%
— rescheduled loans and advances overdue more than 3 months	**10,800**	**0.27%**	18,748	0.52%

Rescheduled loans and advances are those loans and advances to customers which have been restructured or renegotiated after their credit condition declined. And for the purpose of management, the group reorganizes the loans that have been classified as bad under the premise of satisfying credit enhancement, aiming at the deterioration of the borrower's financial position before the loan matures. As at 31 December 2019, with borrowers' financial difficulty, the concession the Group considered resulted from economic or legal reasons is not significant.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) *Sensitivity information and management's overlay (Continued)*

(vii) Debt securities analysed by credit rating

The Group adopts a credit rating approach to manage credit risk of its debt instruments portfolio. The ratings are obtained from major rating agencies where the debt instruments are issued. The carrying amounts of debt instruments investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2019					
	Unrated (Note (i))	**AAA**	**AA**	**A**	**Below A**	**Total**
Debt securities issued by:						
— governments	**490,734**	**175,718**	**14,895**	**1,786**	**—**	**683,133**
— policy banks	**94,455**	**—**	**—**	**6,062**	**—**	**100,517**
— public entities	**—**	**102**	**346**	**—**	**—**	**448**
— banks and non-bank financial institutions	**35,558**	**321,254**	**6,151**	**25,349**	**9,531**	**397,843**
— corporates	**44,596**	**36,881**	**11,023**	**15,593**	**9,188**	**117,281**
Investment management products managed by securities companies	**185,854**	**—**	**406**	**—**	**17**	**186,277**
Trust investment plans	**157,194**	**—**	**—**	**—**	**—**	**157,194**
Total	**1,008,391**	**533,955**	**32,821**	**48,790**	**18,736**	**1,642,693**

	31 December 2018					
	Unrated (Note (i))	AAA	AA	A	Below A	Total
Debt securities issued by:						
— governments	371,368	114,370	11,693	265	—	497,696
— policy banks	108,816	8,664	—	7,016	—	124,496
— public entities	178	29	1,666	—	—	1,873
— banks and non-bank financial institutions	26,995	181,031	4,569	23,595	9,591	245,781
— corporates	55,240	48,675	10,047	7,230	6,254	127,446
Investment management products managed by securities companies	228,392	—	—	—	—	228,392
Trust investment plans	178,019	—	—	—	—	178,019
Total	969,008	352,769	27,975	38,106	15,845	1,403,703

Note:

(i) Unrated debt securities held by the Group are primarily bonds issued by the Chinese government, policy banks, banks, non-bank financial institutions, investment management products managed by securities companies and trust investment plans.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(5) Sensitivity information and management's overlay (Continued)

(viii) Investment management products managed by securities companies and trust investment plans analysed by type of underlying assets

	31 December 2019	31 December 2018
Investment management products managed by securities companies and trust investment plans		
— credit assets	**265,969**	300,089
— rediscounted bills	**80,513**	89,831
— interbank assets products issued by other banks	**—**	16,650
Total	**346,482**	406,570

The Group divides investment management products managed by securities companies and trust investment plans into comprehensive credit management system, to manage its credit risk exposure in a holistic manner. The type of collateral of credit assets includes guarantee, security by collateral, and pledge.

(b) Market risk

Market risk refers to risks that may cause a loss of on-balance sheet and off-balance sheet businesses for the Group due to the adverse movement of market prices, including interest rates, foreign exchange rates, stock prices and commodity prices. The Group has established a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and limit management.

Risk and Internal Control Committee of the Group is responsible for approving market risk management policies, establishing appropriate organisational structure and information systems to effectively identify, measure, monitor and control market risks, and ensuring adequate resources to reinforce the market risk management. The Risk Management Department is responsible for independently managing and controlling market risks of the Group, including developing market risk management policies and authorisation limits, providing independent report of market risk to identify, measure and monitor the Group's market risk. Business departments are responsible for the day-to-day management of market risks, including effectively identifying, measuring, controlling market risk factors associated with the relevant operations, so as to ensure the dynamic balance between business development and risk undertaking.

The Group uses sensitivity analysis, foreign exchange exposure and interest rate re-pricing gap analysis as the primary instruments to monitor market risk.

Interest rate risk and currency risk are the major market risks that the Group is exposed to.

Interest rate risk

The Group's interest rate exposures mainly arise from the mismatching of assets and liabilities' re-pricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its re-pricing risk and adjust the ratio of floating and fixed rate exposures, the loan re-pricing cycle, as well as optimise the term structure of its deposits accordingly.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

The Group implements various methods, such as duration analysis, sensitivity analysis, stress testing and scenario simulation, to measure, manage and report the interest rate risk on a regular basis.

The following tables summarise the average interest rates, and the next re-pricing dates or contractual maturity date whichever is earlier for the assets and liabilities as at the end of each reporting date.

	31 December 2019						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.55%	463,158	17,743	445,415	—	—	—
Deposits with banks and non-bank financial institutions	2.00%	121,297	1,349	53,285	66,663	—	—
Placements with and loans to banks and non-bank financial institutions	2.82%	204,547	1,218	149,333	39,546	14,450	—
Financial assets held under resale agreements	2.13%	9,954	—	9,954	—	—	—
Loans and advances to customers (Note (ii))	5.08%	3,892,602	9,958	1,580,543	1,155,741	317,997	828,363
Financial investments							
— at fair value through profit or loss		317,546	219,536	49,923	26,845	15,508	5,734
— at amortised cost	4.39%	924,234	112	362,026	78,763	367,340	115,993
— at fair value through other comprehensive income	3.66%	628,780	427	44,913	92,694	348,325	142,421
— designated at fair value through other comprehensive income		3,036	3,036	—	—	—	—
Others		185,279	185,279	—	—	—	—
Total assets		6,750,433	438,658	2,695,392	1,460,252	1,063,620	1,092,511
Liabilities							
Borrowing from central banks	3.34%	240,298	—	11,358	228,940	—	—
Deposits from banks and non-bank financial institutions	2.79%	951,122	2,710	702,939	245,473	—	—
Placements from banks and non-bank financial institutions	2.84%	92,539	484	57,432	31,714	2,909	—
Financial liabilities at fair value through profit or loss		847	716	131	—	—	—
Financial assets sold under repurchase agreements	2.39%	111,838	23	80,155	31,660	—	—
Deposits from customers	2.08%	4,073,258	50,932	2,782,857	645,144	593,397	928
Debt securities issued	3.80%	650,274	3,512	71,769	458,267	9,022	107,704
Lease liabilities	4.68%	10,896	790	11	108	5,303	4,684
Others		86,837	86,837	—	—	—	—
Total liabilities		6,217,908	146,004	3,706,652	1,641,306	610,631	113,316
Interest rate gap		532,524	292,654	(1,011,260)	(181,054)	452,989	979,195

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

	31 December 2018						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.54%	538,708	17,047	521,661	—	—	—
Deposits with banks and non-bank financial institutions	2.22%	99,153	114	94,039	5,000	—	—
Placements with and loans to banks and non-bank financial institutions	3.38%	176,160	873	129,236	46,051	—	—
Financial assets held under resale agreements	2.59%	10,790	—	10,790	—	—	—
Loans and advances to customers (Note (ii))	4.86%	3,515,650	8,635	1,577,525	918,215	996,066	15,209
Financial investments							
— at fair value through profit or loss		308,872	225,164	28,057	26,624	20,915	8,112
— at amortised cost	4.71%	778,238	8,541	67,972	181,186	388,840	131,699
— at fair value through other comprehensive income	3.80%	510,346	8,529	42,830	73,607	288,337	97,043
— designated at fair value through other comprehensive income		2,707	2,707	—	—	—	—
Others		126,090	124,208	1,711	171	—	—
Total assets		6,066,714	395,818	2,473,821	1,250,854	1,694,158	252,063
Liabilities							
Borrowing from central banks	3.29%	286,430	—	68,350	218,080	—	—
Deposits from banks and non-bank financial institutions	3.54%	782,264	4,151	553,283	224,660	170	—
Placements from banks and non-bank financial institutions	3.49%	115,358	241	83,859	31,224	—	34
Financial liabilities at fair value through profit or loss		962	962	—	—	—	—
Financial assets sold under repurchase agreements	2.84%	120,315	35	110,790	9,490	—	—
Deposits from customers	1.88%	3,649,611	20,940	2,605,686	647,223	375,730	32
Debt securities issued	4.52%	552,483	4,155	98,144	247,974	95,260	106,950
Others		106,205	104,823	1,382	—	—	—
Total liabilities		5,613,628	135,307	3,521,494	1,378,651	471,160	107,016
Interest rate gap		453,086	260,511	(1,047,673)	(127,797)	1,222,998	145,047

Notes:

(i) Average interest rate represented the ratio of interest income/expense to average interest bearing assets/liabilities during the year.

(ii) For loans and advances to customers, the "Less than three months" category included overdue amounts (net of allowance for impairment losses) of RMB43,791 million as at 31 December 2019 (as at 31 December 2018: RMB42,289 million).

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis as at 31 December 2019 and 31 December 2018.

	31 December 2019		31 December 2018	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(11,471)**	**(3,407)**	(11,435)	(1,409)
-100 basis points	**11,471**	**3,407**	11,435	1,409

This sensitivity analysis is based on a static interest rate risk profile of the Group's non-derivative assets and liabilities and certain assumptions as discussed below. The analysis measures only the impact of changes in interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's non-derivative assets and liabilities within the one-year period. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or mature within the three months bracket, and the after three months but within one year bracket are both reprice or mature at the beginning of the respective periods, (ii) it does not reflect the potential impact of unparalleled yield curve movements, and (iii) there are no other changes to the portfolio, all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income and other comprehensive income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Currency risk

Currency risk arises from the potential change of exchange rates that cause a loss to the on-balance sheet and off-balance sheet business of the Group. The Group measures its currency risk with foreign currency exposures, and manages its currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currency, as well as using derivative financial instruments, mainly foreign exchange swaps, to manage its exposure.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The exposures at the reporting date were as follows:

	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	445,569	16,679	694	216	463,158
Deposits with banks and non-bank financial institutions	96,334	16,579	2,598	5,786	121,297
Placements with and loans to banks and non-bank financial institutions	123,725	55,649	20,516	4,657	204,547
Financial assets held under resale agreements	9,954	—	—	—	9,954
Loans and advances to customers	3,655,998	112,700	105,842	18,062	3,892,602
Financial investments					
— at fair value through profit or loss	293,217	20,862	3,467	—	317,546
— at amortised cost	922,228	2,006	—	—	924,234
— at fair value through other comprehensive income	538,355	64,153	17,903	8,369	628,780
— designated at fair value through other comprehensive income	2,557	178	301	—	3,036
Others	175,304	4,679	4,550	746	185,279
Total assets	6,263,241	293,485	155,871	37,836	6,750,433
Liabilities					
Borrowings from central banks	240,298	—	—	—	240,298
Deposits from banks and non-bank financial institutions	942,867	7,842	331	82	951,122
Placements from banks and non-bank financial institutions	75,315	16,858	216	150	92,539
Financial liabilities at fair value through profit or loss	715	132	—	—	847
Financial assets sold under repurchase agreements	111,838	—	—	—	111,838
Deposits from customers	3,700,005	200,762	154,291	18,200	4,073,258
Debt securities issued	628,885	21,389	—	—	650,274
Lease liabilities	10,183	4	559	150	10,896
Others	80,992	1,724	3,855	266	86,837
Total liabilities	5,791,098	248,711	159,252	18,848	6,217,909
Net on-balance sheet position	472,143	44,774	(3,381)	18,988	532,524
Credit commitments	1,169,606	84,385	13,294	7,790	1,275,075
Derivatives (Note (i))	(9,194)	(27,398)	45,836	(7,770)	1,474

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The exposures at the reporting date were as follows: (Continued)

	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	525,321	12,668	535	184	538,708
Deposits with banks and non-bank financial institutions	64,670	23,757	2,429	8,297	99,153
Placements with and loans to banks and non-bank financial institutions	123,262	41,291	9,137	2,470	176,160
Financial assets held under resale agreements	9,832	958	—	—	10,790
Loans and advances to customers	3,263,386	122,573	109,773	19,918	3,515,650
Financial investments					
— at fair value through profit or loss	287,997	18,146	2,729	—	308,872
— at amortised cost	775,749	2,489	—	—	778,238
— at fair value through other comprehensive income	429,671	50,766	23,970	5,939	510,346
— designated at fair value through other comprehensive income	2,340	155	212	—	2,707
Others	121,762	1,858	515	1,955	126,090
Total assets	5,603,990	274,661	149,300	38,763	6,066,714
Liabilities					
Borrowings from central banks	286,430	—	—	—	286,430
Deposits from banks and non-bank financial institutions	777,789	2,582	131	1,762	782,264
Placements from banks and non-bank financial institutions	101,094	14,139	125	—	115,358
Financial liabilities at fair value through profit or loss	—	962	—	—	962
Financial assets sold under repurchase agreements	120,097	218	—	—	120,315
Deposits from customers	3,283,244	205,993	138,905	21,469	3,649,611
Debt securities issued	531,768	20,715	—	—	552,483
Others	93,020	3,626	7,625	1,934	106,205
Total liabilities	5,193,442	248,235	146,786	25,165	5,613,628
Net on-balance sheet position	410,548	26,426	2,514	13,598	453,086
Credit commitments	1,004,799	95,187	12,862	7,359	1,120,207
Derivatives (Note (i))	33,795	(38,861)	22,205	(14,261)	2,878

Note:

(i) Derivatives represent the net notional amount of currency derivatives, including undelivered foreign exchange spot, foreign exchange forward, foreign exchange swap and currency option.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's profit or loss and other comprehensive income. The following table sets forth, as at 31 December 2019 and 31 December 2018, the results of the Group's foreign exchange rate sensitivity analysis.

	31 December 2019		31 December 2018	
	Profit before tax	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**3,529**	**23**	582	(1)
5% depreciation	**(3,529)**	**(23)**	(582)	1

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain assumptions as follows: (i) the foreign exchange sensitivity is the gain and loss recognised as a result of 500 basis point fluctuation in the foreign currency exchange rates against RMB at the reporting date, (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously and does not take into account the correlation effect of changes in different foreign currencies, and (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, foreign exchange derivative instruments, and; all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's profit and other comprehensive income resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis. Precious metal is included in foreign currency for the purpose of this sensitivity analysis.

(c) Liquidity risk

Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds. The Group's liquidity risk arises mainly from the mismatch of assets to liabilities and customers may concentrate their withdrawals.

The Group has implemented overall liquidity risk management on the entity level. The headquarters has the responsibility for developing the entire Group's liquidity risk policies, strategies, and implements centralised management of liquidity risk on the entity level. The domestic and foreign affiliates develop their own liquidity policies and procedures within the Group's liquidity strategy management framework, based on the requirements of relevant regulatory bodies.

The Group manages liquidity risk by setting various indicators and operational limits according to the overall position of the Group's assets and liabilities, with referencing to market condition. The Group holds assets with high liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The tools that the Group uses to measure and monitor liquidity risk mainly include:

— Liquidity gap analysis;

— Liquidity indicators (including but not limited to regulated and internal managed indicators, such as liquidity coverage ratio, net stable funding ratio, loan-to-deposit ratio, liquidity ratio, liquidity gap rate, excess reserves rate) monitoring;

— Scenario analysis;

— Stress testing.

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(c) Liquidity risk (Continued)

On this basis, the Group establishes regular reporting mechanisms for liquidity risk to report the latest situation of liquidity risk to the senior management on a timely basis.

Analysis of the remaining contractual maturity of assets and liabilities:

	31 December 2019						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Assets							
Cash and balances with central banks	104,114	–	3,080	–	–	355,964	463,158
Deposits with banks and non-bank financial institutions	39,476	14,100	67,721	–	–	–	121,297
Placements with and loans to banks and non-bank financial institutions	–	150,131	39,858	14,558	–	–	204,547
Financial assets held under resale agreements	–	9,954	–	–	–	–	9,954
Loans and advances to customers (Note (ii))	27,210	695,697	928,062	691,475	1,478,383	71,775	3,892,602
Financial investments							
— at fair value through profit or loss	819	49,394	27,738	15,979	5,754	217,862	317,546
— at amortised cost	8,714	69,541	160,329	470,798	214,740	112	924,234
— at fair value through other comprehensive income	134	34,824	94,189	357,203	142,426	4	628,780
— designated at fair value through other comprehensive income	–	–	–	–	–	3,036	3,036
Others	74,094	11,457	10,812	36,027	84	52,805	185,279
Total assets	254,561	1,035,098	1,331,789	1,586,040	1,841,387	701,558	6,750,433
Liabilities							
Borrowings from central banks	–	11,358	236,569	–	–	–	240,298
Deposits from banks and non-bank financial institutions	402,889	302,059	246,174	–	–	–	951,122
Placements from banks and non-bank financial institutions	–	57,594	32,010	2,935	–	–	92,539
Financial liabilities at fair value through profit or loss	715	–	–	–	–	132	847
Financial assets sold under repurchase agreements	–	80,177	31,661	–	–	–	111,838
Deposits from customers	2,010,162	828,467	639,909	593,583	1,137	–	4,073,258
Debt securities issued	–	71,846	460,610	9,071	108,747	–	650,274
Lease liabilities	168	784	2,225	6,562	1,157		10,896
Others	43,902	6,785	6,893	13,493	6,927	8,837	86,837
Total liabilities	2,457,836	1,359,070	1,648,422	625,644	117,968	8,969	6,217,909
(Short)/long position	(2,203,275)	(323,972)	(316,633)	960,396	1,723,419	692,589	532,524

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Analysis of the remaining contractual maturity of assets and liabilities: (Continued)

	31 December 2018						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note (i))	Total
Assets							
Cash and balances with central banks	134,917	—	1,288	—	—	402,503	538,708
Deposits with banks and non-bank financial institutions	65,701	28,245	5,207	—	—	—	99,153
Placements with and loans to banks and non-bank financial institutions	—	129,317	46,843	—	—	—	176,160
Financial assets held under resale agreements	—	10,790	—	—	—	—	10,790
Loans and advances to customers (Note (ii))	7,117	585,723	952,830	910,098	1,022,976	36,906	3,515,650
Financial investments							
— at fair value through profit or loss	—	30,418	43,589	29,476	8,115	197,274	308,872
— at amortised cost	—	68,375	182,641	394,010	132,878	334	778,238
— at fair value through other comprehensive income	31	39,437	75,556	295,308	99,920	94	510,346
— designated at fair value through other comprehensive income	—	—	—	—	—	2,707	2,707
Others	34,630	17,382	12,238	28,655	180	33,005	126,090
Total assets	242,396	909,687	1,320,192	1,657,547	1,264,069	672,823	6,066,714
Liabilities							
Borrowings from central banks	80	68,350	218,000	—	—	—	286,430
Deposits from banks and non-bank financial institutions	319,576	236,910	225,607	171	—	—	782,264
Placements from banks and non-bank financial institutions	—	84,099	31,225	—	34	—	115,358
Financial liabilities at fair value through profit or loss	962	—	—	—	—	—	962
Financial assets sold under repurchase agreements	—	110,823	9,492	—	—	—	120,315
Deposits from customers	1,880,088	746,341	647,718	375,432	32	—	3,649,611
Debt securities issued	—	98,205	247,992	97,354	108,932	—	552,483
Others	50,170	16,677	16,827	6,554	4,419	11,558	106,205
Total liabilities	2,250,876	1,361,405	1,396,861	479,511	113,417	11,558	5,613,628
(Short)/long position	(2,008,480)	(451,718)	(76,669)	1,178,036	1,150,652	661,265	453,086

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flow:

	31 December 2019						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	104,114	1,407	7,624	—	—	355,964	469,109
Deposits with banks and non-bank financial institutions	39,476	14,168	69,201	—	—	—	122,845
Placements with and loans to banks and non-bank financial institutions	—	155,306	40,902	15,580	—	—	211,788
Financial assets held under resale agreements	—	10,002	—	—	—	—	10,002
Loans and advances to customers(Notes(ii))	27,210	735,040	1,025,345	1,000,430	2,084,351	77,504	4,949,880
Financial investments							
— at fair value through profit or loss	819	60,220	28,771	16,380	5,754	217,862	329,806
— at amortised cost	8,714	78,104	191,311	563,757	224,657	118	1,066,661
— at fair value through other comprehensive income	134	38,162	109,737	395,348	156,066	4	699,451
— designated at fair value through other comprehensive income	—	—	—	—	—	3,036	3,036
Others	74,094	11,457	10,812	36,027	84	52,805	185,279
Total assets	254,561	1,103,866	1,483,703	2,027,522	2,470,912	707,293	8,047,857
Liabilities							
Borrowings from central banks	—	11,358	236,569	—	—	—	247,927
Deposits from banks and non-bank financial institutions	402,889	487,768	324,097	84,721	—	—	1,299,475
Placements from banks and non-bank financial institutions	—	57,594	32,039	2,935	—	—	92,568
Financial liabilities at fair value through profit or loss	715	—	—	—	—	132	847
Financial assets sold under repurchase agreements	—	80,728	32,077	—	—	—	112,805
Deposits from customers	2,010,162	842,424	673,137	668,153	1,336	—	4,195,212
Debt securities issued	—	78,869	472,403	119,387	108,747	—	779,406
Lease liabilities	168	787	2,285	7,341	1,603	—	12,184
Others	43,902	6,785	6,895	13,493	6,927	8,837	86,839
Total liabilities	2,457,836	1,566,313	1,779,502	896,030	118,613	8,969	6,827,263
(Short)/long position	(2,203,275)	(462,447)	(295,799)	1,131,492	2,352,299	698,324	1,220,594
Derivative cash flow							
Derivative financial instrument settled on a net basis	—	32	146	77	(12)	—	243
Derivative financial instruments settled on a gross basis							
— cash inflow	—	748,197	568,296	58,470	—	73	1,375,036
— cash outflow	—	(395,774)	(563,552)	(58,322)	—	—	(1,017,648)

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flow (Continued).

	31 December 2018						
	Repayable on demand	Within three months	Between Three months and one year	Between One and five years	More than five years	Undated (Note (i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	134,721	1,621	6,608	—	—	402,503	545,453
Deposits with banks and non-bank financial institutions	67,502	29,625	5,326	—	—	—	102,453
Placements with and loans to banks and non-bank financial institutions	—	134,633	57,838	—	—	—	192,471
Financial assets held under resale agreements	—	10,795	—	—	—	—	10,795
Loans and advances to customers (Notes(ii))	8,797	620,238	1,042,464	1,197,180	1,536,250	40,738	4,445,667
Financial investments							
— at fair value through profit or loss	—	35,039	47,703	31,114	88,205	200,776	402,837
— at amortised cost	—	74,135	201,371	418,337	163,300	5,880	863,023
— at fair value through other comprehensive income	31	43,751	97,680	375,381	145,474	11,941	674,258
— designated at fair value through other comprehensive income	—	—	—	—	—	2,406	2,406
Others	34,630	17,381	12,239	28,655	180	33,275	126,360
Total assets	245,681	967,218	1,471,229	2,050,667	1,933,409	697,519	7,365,723
Liabilities							
Borrowings from central banks	80	64,769	226,130	—	—	—	290,979
Deposits from banks and non-bank financial institutions	573,392	662,179	485,918	31,575	—	—	1,753,064
Placements from banks and non-bank financial institutions	—	89,065	40,706	—	34	—	129,805
Financial liabilities at fair value through profit or loss	962	—	—	—	—	—	962
Financial assets sold under repurchase agreements	—	110,983	9,483	155	—	—	120,621
Deposits from customers	1,880,996	760,404	679,534	429,917	40	—	3,750,891
Debt securities issued	—	98,780	306,786	180,166	108,932	—	694,664
Others	50,171	16,677	16,827	6,554	4,419	11,558	106,206
Total liabilities	2,505,601	1,802,857	1,765,384	648,367	113,425	11,558	6,847,192
(Short)/long position	(2,259,920)	(835,639)	(294,155)	1,402,300	1,819,984	685,961	518,531
Derivative cash flow							
Derivative financial instrument settled on a net basis	—	(56)	44	128	23	—	139
Derivative financial instruments settled on a gross basis							
— cash inflow	—	1,194,286	1,244,844	48,220	—	—	2,487,350
— cash outflow	—	(802,726)	(1,243,629)	(48,151)	—	—	(2,094,506)

(Amounts in millions of Renminbi unless otherwise stated)

55 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Credit Commitments include bank acceptances, credit card commitments, guarantees, loan commitment and letters of credit. The tables below summarise the amounts of credit commitments by remaining contractual maturity.

	31 December 2019			
	Less than 1 year	**1-5 years**	**Over 5 years**	**Total**
Bank acceptancess	**426,226**	**—**	**—**	**426,226**
Credit card commitments	**538,861**	**6,387**	**255**	**545,503**
Guarantees	**96,576**	**49,086**	**1,492**	**147,154**
Loan commitments	**16,448**	**18,779**	**16,984**	**52,211**
Letter of credit	**101,948**	**2,033**	**—**	**103,981**
Total	**1,180,059**	**76,285**	**18,731**	**1,275,075**

	31 December 2018			
	Less than 1 year	1-5 years	Over 5 years	Total
Bank acceptancess	393,851	—	—	393,851
Credit card commitments	427,681	6,909	—	434,590
Guarantees	83,905	68,354	6,554	158,813
Loan commitments	7,033	15,578	17,418	40,029
Letter of credit	90,634	2,290	—	92,924
Total	1,003,104	93,131	23,972	1,120,207

Notes:

(i) For cash and balances with central banks, the undated period amount represented statutory deposit reserve funds and fiscal deposits maintained with the PBOC. For placements with and loans to banks and non-bank financial institutions, loans and advances to customers and investments, the undated period amount represented the balances being impaired or overdue for more than one month. Equity investments were also reported under undated period.

(ii) The balances of loans and advances to customers which were overdue within one month but not impaired are included in repayable on demand.

55 Financial risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, personnel, IT systems, or external events, including legal risk, but excluding strategy risk and reputational risk.

The Group manages operational risk through a control-based environment by establishing a sound mechanism of operational risk management in order to identify, assess, monitor, control, mitigate and report operational risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. Key controls include:

— by establishing a matrix authorisation management system of the whole group, carrying out the annual unified authorisation work, and strictly restricting the institutions and personnel at all levels to carry out business activities within the scope of authority granted, the management requirements of prohibiting the overstepping of authority to engage in business activities were further clarified at the institutional level;

— through consistent legal responsibility framework, taking strict disciplinary actions against non-compliance in order to ensure accountability;

— promoting operational risk management culture throughout the organisation; building a team of operational risk management professionals. Through formal training and performance appraisal system in raising risk management awareness;

— strengthening cash and account management in accordance with the relevant policies and procedures, intensifying the monitoring of suspicious transactions. Ensure the staff are well-equipped with the necessary knowledge and basic skills on anti-money laundering through continuous training;

— backup systems and disaster recovery plans covering all the major activities, especially backoffice operations in order to minimise any unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain disruptive events.

In addition to the above, the Group improves its operational risk management information systems on an ongoing basis to efficiently identify, evaluate, monitor, control and report its level of operational risk. The Group's management information system has the functionalities of recording and capturing lost data and events of operational risk to further support operational risk control and self-assessment, as well as monitoring of key risk indicators.

56 Capital Adequacy Ratio

Capital adequacy ratio reflects the Group's operational and risk management capability and it is the core of capital management. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testings and other measures to forecast, plan and manage capital adequacy ratio.

The Group's management monitors the Group's and the Bank's capital adequacy regularly based on regulations issued by the CBIRC. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly, respectively.

From 1 January 2013, the Group commenced the computation of its capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) and other relevant regulations promulgated by the CBIRC in the year of 2012. From 1 January 2019 on, the Group calculates the default risk assets of the counterparties of derivatives in accordance with the Regulations on Measuring the Risk Assets of the Counterparties of Derivative Instruments promulgated by the CBIRC in 2018. The requirements pursuant to these regulations may have certain differences comparing to those applicable in Hong Kong and other jurisdictions.

(Amounts in millions of Renminbi unless otherwise stated)

56 Capital Adequacy Ratio (Continued)

CBIRC demands that commercial banks shall meet the capital adequacy requirements set out in the "Capital Management Measures for Commercial Banks (Trial)" by the end of 2018. Systematically important banks are required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%. Non-systematically important bank are required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 7.50%, 8.50% and 10.50%. In addition, overseas subsidiaries and branches are directly regulated by the respective local banking regulators and the requirements of capital adequacy ratios differ by country. During the year, the Group has complied in full with all its externally imposed capital requirements.

The capital adequacy ratios calculated in accordance with Regulation Governing Capital of Commercial Banks (Provisional). According to the requirements, for credit risk, the capital requirement was measured using the weighting method. The market risk was measured by adopting the standardised approach and the operational risk was measured by using the basic indicator approach.

Relevant requirements promulgated by the CBIRC are listed as below.

	31 December 2019	31 December 2018
Core Tier-One capital adequacy ratio	**8.69%**	8.62%
Tier-One capital adequacy ratio	**10.20%**	9.43%
Capital adequacy ratio	**12.44%**	12.47%
Components of capital base		
Core Tier-One capital:		
Share capital	**48,935**	48,935
Qualified portion of capital reserve and other equity instruments	**62,112**	58,977
Other comprehensive income	**7,361**	5,269
Surplus reserve	**39,009**	34,450
General reserve	**81,535**	74,255
Retained earnings	**203,411**	179,820
Qualified portion of non-controlling interests	**4,627**	4,422
Total core Tier-One capital	**446,990**	406,128
Core Tier-One capital deductions:		
Goodwill (net of related deferred tax liability)	**(912)**	(896)
Other intangible assets other than land use right (net of related deferred tax liability)	**(1,875)**	(1,878)
Core Tier-One Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope	**—**	—
Net core Tier-One capital	**444,203**	403,354
Other Tier-One capital (Note (i))	**77,555**	37,768
Tier-One capital	**521,758**	441,122
Tier-Two capital:		
Qualified portion of Tier-Two capital instruments issued and share premium	**63,151**	104,515
Surplus allowance for loan impairment	**49,753**	37,122
Qualified portion of non-controlling interests	**1,235**	634
Net capital base	**635,897**	583,393
Total risk-weighted assets	**5,113,585**	4,677,713

Note:

(i) As at 31 December 2019, the Group's other Tier-One capital included preference shares issued by the Bank (Note 43) and non-controlling interests (Note 49).

57 Fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date. This level includes listed equity instruments and debt instruments on exchanges and exchange-traded derivatives.

Level 2: inputs other than quoted prices included within Level 1 are observable for assets or liabilities, either directly or indirectly. A majority of the debt securities classified as level 2 are Renminbi bonds. The fair values of these bonds are determined based on the evaluation results provided by China Central Depository & Clearing Corporate Limited. This level also includes partial bills rediscounting and forfeiting in loans and advances, as well as a majority of over-the-counter derivative contracts. Foreign exchange forward and swaps, Interest rate swap, and foreign exchange options use discount cash flow evaluation method and the evaluation model of which includes Forward Pricing Model, Swap Model and Option Pricing Model. Bills rediscounting and forfeiting use discount cash flow evaluation method to estimate fair value. Input parameters are sourced from the Open market such as Bloomberg and Reuters.

Level 3: inputs for assets or liabilities are based on unobservable parameters. This level includes equity investments and debt instruments with one or more than one significant unobservable parameters. Management determine the fair value through inquiring from counterparties or using the valuation techniques. The model incorporate unobservable parameters such as discount rate and market price volatilities.

The fair value of the Group's financial assets and financial liabilities are determined as follows:

— If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

— If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there were no available observable current market transactions prices for similar instruments, quoted prices from counterparty is used for the valuation, and management performs analysis on these prices. Discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for derivatives other than options, and option pricing models are used for option derivatives.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Market Department, the Financial Institution Department, and the Investment Bank Department are responsible for the fair valuation of financial assets and financial liabilities. The Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items according to the result generated from the valuation process and accounting policies. The Finance and Accounting Department prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

For the year ended 31 December 2019, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

(Amounts in millions of Renminbi unless otherwise stated)

57 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value

Financial assets and liabilities not carried at fair value of the Group include cash and balances with central banks, deposits with banks and non-bank financial institutions, placements with and loans to banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers at amortised cost, financial investments at amortised cost, borrowings from central banks, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Except for the items shown in the tables below, the maturity dates of aforesaid financial assets and liabilities are within a year or are mainly floating interest rates, as a result, their carrying amounts are approximately equal to their fair value.

	Carrying values		**Fair values**	
	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
Financial assets:				
Financial investment				
— at amortised cost	**924,234**	778,238	**938,830**	778,779
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	**2,863**	2,813	**2,789**	2,752
— debt securities issued	**81,196**	82,091	**80,619**	80,625
— subordinated bonds issued	**89,555**	126,269	**89,937**	126,041
— certificates of interbank deposit issued	**438,830**	341,310	**431,706**	335,475
— convertible corporate bonds	**37,830**	—	**37,730**	—

(Amounts in millions of Renminbi unless otherwise stated)

57 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value (Continued)

Fair value of financial assets and liabilities above at fair value hierarchy is as follows:

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial investment				
— at amortised cost	**2,063**	**663,508**	**273,259**	**938,830**
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	—	**2,789**	—	**2,789**
— debt securities issued	—	**80,619**	—	**80,619**
— subordinated bonds issued	**5,789**	**84,148**	—	**89,937**
— certificates of interbank deposit issued	—	**431,706**	—	**431,706**
— convertible corporate bonds	—	**37,730**	—	**37,730**

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial investment				
— at amortised cost	2,109	501,890	274,780	778,779
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	—	2,752	—	2,752
— debt securities issued	—	80,625	—	80,625
— subordinated bonds issued	5,642	120,399	—	126,041
— certificates of interbank deposit issued	—	335,475	—	335,475

(Amounts in millions of Renminbi unless otherwise stated)

57 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 31 December 2019				
Recurring fair value measurements				
Assets				
Loans and advances to customers at fair value through other comprehensive income				
— loans	—	922	—	922
— discounted bills	—	307,867	—	307,867
Loans and advances to customers at fair value through current profit or loss				
— personal loans	—	—	6,915	6,915
Financial investments at fair value through profit or loss				
— debt securities	2,086	30,417	10,367	42,870
— investment funds	9,962	196,224	12,305	218,491
— certificates of deposit	—	46,792	—	46,792
— wealth management products	—	133	819	952
— equity instruments	1,185	—	7,239	8,424
— trust investment plans	17	—	—	17
Financial investments at fair value through other comprehensive income				
— debt securities	86,557	516,989	13,248	616,794
— certificates of deposit	361	4,505	—	4,866
Financial investments designated at fair value through other comprehensive income				
— equity instruments	205	123	2,708	3,036
Derivative financial assets				
— interest rate derivatives	2	5,201	—	5,203
— currency derivatives	—	11,700	—	11,700
— precious metals derivatives	—	214	—	214
— credit derivatives	—	—	—	—
Total financial assets measured at fair value	100,375	1,121,087	53,601	1,275,063
Liabilities				
Financial liabilities at fair value through profit or loss				
— short position in debt securities	132	—	—	132
— structured products	—	—	715	715
Derivative financial liabilities				
— interest rate derivatives	—	5,176	—	5,176
— currency derivatives	29	10,899	—	10,928
— precious metals derivatives	—	732	—	732
— commodity derivatives	—	—	—	—
Total financial liabilities measured at fair value	161	16,807	715	17,683

(Amounts in millions of Renminbi unless otherwise stated)

57 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 31 December 2018				
Recurring fair value measurements				
Assets				
Loans and advances to customers at fair value through other comprehensive income				
— loans	—	137	—	137
— discounted bills	—	96,383	—	96,383
Financial investments at fair value through profit or loss				
— debt securities	2,815	62,319	6,786	71,920
— investment funds	4,879	178,451	5,846	189,176
— certificates of deposit	—	16,713	—	16,713
— wealth management products	—	—	116	116
— equity instruments	540	—	3,921	4,461
— trust investment plans	—	—	26,486	26,486
Financial investments at fair value through other comprehensive income				
— debt securities	64,506	421,783	4,726	491,015
— certificates of deposit	662	11,982	—	12,644
Financial investments designated at fair value through other comprehensive income				
— equity instruments	295	—	2,412	2,707
Derivative financial assets				
— interest rate derivatives	8	6,098	—	6,106
— currency derivatives	—	24,825	1	24,826
— precious metals derivatives	—	1,048	—	1,048
— credit derivatives	—	11	—	11
Total financial assets measured at fair value	73,705	819,750	50,294	943,749
Liabilities				
Financial liabilities at fair value through profit or loss				
— short position in debt securities	962	—	—	962
Derivative financial liabilities				
— interest rate derivatives	12	5,962	—	5,974
— currency derivatives	—	24,500	1	24,501
— precious metals derivatives	—	1,170	—	1,170
— commodity derivatives	—	1	—	1
Total financial liabilities measured at fair value	974	31,633	1	32,608

(Amounts in millions of Renminbi unless otherwise stated)

57 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

Notes:

(i) During the current year, there were no significant transfers amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 fair value hierarchy:

	Assets					Liabilities		
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets designated at fair value through other comprehensive income	Derivative financial assets	Total	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2019	**43,155**	**4,726**	**2,412**	**1**	**50,294**	**–**	**(1)**	**(1)**
Total gains or losses								
– in profit or loss	**924**	**(226)**	**(17)**	**–**	**681**	**–**	**–**	**–**
– in comprehensive income	**–**	**145**	**14**	**–**	**159**	**–**	**–**	**(715)**
Purchase	**17,819**	**12,159**	**785**	**–**	**30,763**	**(715)**	**–**	**–**
Settlements	**(31,095)**	**(3,557)**	**(486)**	**(1)**	**(35,139)**	**–**	**1**	**1**
Transfer in/out	**(68)**	**–**	**–**	**–**	**(68)**	**–**	**–**	**–**
Exchange effect	**(5)**	**1**	**–**	**–**	**(4)**	**–**	**–**	**–**
As at 31 December 2019	**30,730**	**13,248**	**2,708**	**–**	**46,686**	**(715)**	**–**	**–**

(ii) The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 fair value hierarchy :

	Assets					Liabilities	
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets designated at fair value through other comprehensive income	Derivative financial assets	Total	Derivative financial liabilities	Total
As at 1 January 2018	45,535	4,850	237	1	50,623	(1)	(1)
Total gains or losses							
– in profit or loss	194	(40)	–	1	155	(1)	(1)
– in comprehensive income	–	102	(9)	–	93	–	–
Purchase	8,549	1,700	2,185	–	12,434	–	–
Settlements	(11,105)	(1,926)	–	(1)	(13,032)	1	1
Transfer in/out	–	39	–	–	39	–	–
Exchange effect	(18)	1	(1)	–	(18)	–	–
As at 31 December 2018	43,155	4,726	2,412	1	50,294	(1)	(1)

58 Related parties

(a) Relationship of related parties

(i) The Group is controlled by CITIC Corporation Limited (incorporated in mainland China), which owns 65.37% of the Bank's shares. The ultimate parent of the Group is CITIC Group (incorporated in mainland China).

(ii) Related parties of the Group include subsidiaries, joint ventures and associates of CITIC Corporation Limited and CITIC Group. The Bank entered into banking transactions with its subsidiaries at arm's length in the ordinary course of business. These transactions are eliminated on consolidation.

The Bank issued 2,147,469,539 shares to CNTC through private placement on 31 December 2015, representing 4.39% shares of the Bank. A non-executive director designated by CNTC was appointed on 17 March 2016, and the appointment was approved by the CBIRC on 24 June 2016. CNTC is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

In February 2015, Xinhu Zhongbao Co., Ltd. acquired 2,292,579,000 H shares of the Bank through its wholly owned subsidiary, representing 4.68% shares of the Bank. A non-executive director designated by Xinhu Zhongbao Co., Ltd. was appointed on 17 March 2016, and the appointment was approved by the CBIRC on 16 November 2016. Xinhu Zhongbao Co., Ltd. is thereafter regarded as the Group's related party, as it has significant influence upon the Bank. On 29 November 2016, Xinhu Zhongbao Co., Ltd., increased its shareholding to 2,320,177,000 H shares of the Bank through its wholly owned subsidiary, representing 4.74% shares of the Bank. In October 2017, Xinhu Zhongbao Co., Ltd. increased its shareholding to 2,446,265,000 H shares of the Bank through its wholly owned subsidiary, representing 4.999% shares of the Bank.

Poly Group acquired 27,216,400 A shares of the Bank through the secondary market, representing 0.06% shares of the Bank. A non-executive director designated by Poly Group was appointed and sent to the bank on 25 May 2018. Poly Group is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

(b) Related party transactions

During the relevant years, the Group entered into transactions with related parties in the ordinary course of its banking businesses including lending, assets transfer (i.e. issuance of asset-backed securities in the form of public placement), wealth management, investment, deposit, settlement and clearing, off-balance sheet transactions, and purchase, sale and leases of property. These banking transactions were conducted under normal commercial terms and conditions and priced at the relevant market rates prevailing at the time of each transaction.

(Amounts in millions of Renminbi unless otherwise stated)

58 Related parties (Continued)

(b) Related party transactions (Continued)

In addition, transactions during the relevant year and the corresponding balances outstanding at the reporting dates are as follows:

	Year ended 31 December 2019		
	Ultimate holding company and affiliates	**Other major equity holders Note (i)**	**Associates and joint ventures**
Profit and loss			
Interest income	**1,426**	**793**	**253**
Fee and commission income and other operating income	**2,073**	**252**	**—**
Interest expense	**(782)**	**(1,210)**	**(34)**
Net trading loss	**17**	**—**	**—**
Other service fees	**(1,501)**	**(1,050)**	**(3)**

	Year ended 31 December 2018		
	Ultimate holding company and affiliates	Other major equity holders Note (i)	Associates and joint ventures
Profit and loss			
Interest income	244	4	63
Fee and commission income and other operating income	1,240	2	—
Interest expense	(445)	(869)	(17)
Net trading gain	(32)	—	—
Other service fees	(1,398)	—	—

(Amounts in millions of Renminbi unless otherwise stated)

58 Related parties (Continued)

(b) Related party transactions (Continued)

	31 December 2019 Ultimate holding company and affiliates	Other major equity holders Note (i)	Associates and joint ventures
Assets			
Gross loans and advances to customers	**31,742**	**23,372**	—
Less: allowance for impairment losses on loans and advances	**(527)**	**(572)**	—
Loans and advances to customers (net)	**31,215**	**22,800**	—
Deposits with banks and non-bank financial institutions	**51**	—	**21,056**
Placements with and loans to banks and non-bank financial institutions	**2,879**	—	—
Derivative financial assets	**207**	—	—
Investment in financial assets			
— at fair value through profit or loss	**901**	—	—
— at amortised cost	**1,722**	**3,500**	—
— at fair value through other comprehensive income	**226**	**1,237**	—
— designated at fair value through other comprehensive income	**107**	—	—
Investments in associates and joint ventures	—	—	**3,672**
Right-of-use assets	**74**	**5**	—
Other assets	**11,183**	**150**	—
Liabilities			
Deposits from banks and non-bank financial institutions	**30,219**	**2,340**	**1,511**
Placements from banks and non-bank financial institutions	**649**	—	—
Derivative financial liabilities	**342**	—	—
Deposits from customers	**63,050**	**57,112**	**51**
Employee benefits payable	**12**	—	—
Lease liability	**70**	**4**	—
Other liabilities	**1,622**	—	—
Off-balance sheet items			
Guarantees and letters of credit	**9**	**935**	—
Acceptances	**2,336**	**258**	—
Entrusted funds	**35,284**	**3,048**	—
Entrusted loans	**11,989**	**8,117**	—
Funds raised from investors of non-principle guaranteed wealth management products	**2,933**	—	—
Guarantees received	**58,903**	**36,951**	—
Nominal amount of derivatives	**55,574**	—	—

(Amounts in millions of Renminbi unless otherwise stated)

58 Related parties (Continued)

(b) Related party transactions (Continued)

	31 December 2018		
	Ultimate holding company and affiliates	Other major equity holders Note (i)	Associates and joint ventures
Assets			
Gross loans and advances to customers	10,645	14,363	—
Less: allowance for impairment losses on loans and advances	(258)	(417)	—
Loans and advances to customers (net)	10,387	13,946	—
Deposits with banks and non-bank financial institutions	—	—	5,364
Placements with and loans to banks and non-bank financial institutions	1,547	—	—
Derivative financial assets	60	—	—
Investment in financial assets			
— at fair value through profit or loss	310	—	—
— at amortised cost	4,258	4,318	—
Investments in associates and joint ventures	—	—	3,881
Other assets	10,941	—	—
Liabilities			
Deposits from banks and non-bank financial institutions	25,710	178	1,201
Placements from banks and non-bank financial institutions	2,503	—	—
Derivative financial liabilities	24	—	—
Deposits from customers	37,496	41,756	17
Other liabilities	1,222	—	—
Off-balance sheet items			
Guarantees and letters of credit	1,828	452	—
Acceptances	72	—	—
Entrusted funds	45,729	6,641	—
Entrusted loans	18,514	12,540	—
Funds raised from investors of non-principle guaranteed wealth management products	707	—	—
Guarantees received	52,986	9,638	—
Nominal amount of derivatives	7,950	—	—

Note:

(i) Other major equity holders include CNTC, Xinhu Zhongbao Co., Ltd. and Poly Group.

The amounts disclosed represented those transactions or balances when they were considered as related parties of the Group during the relevant periods. The transactions between the subsidiaries of CNTC/Poly Group and the Group are not significant in 2019.

58 Related parties (Continued)

(c) Key management personnel and their close family members and related companies

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

The Group entered into banking transactions with key management personnel and their close family members and those companies controlled or jointly controlled by them in the normal course of business. Other than those disclosed below, there was no material transactions and balances between the Group and these individuals, their close family members or those companies controlled or jointly controlled by them.

The aggregate amount of relevant loans outstanding as at 31 December 2019 to directors, supervisors and executive officers amounted to RMB1.51million (as at 31 December 2018: RMB0.40 million).

The aggregated compensations for directors, supervisors and executive officers of the Bank as at 31 December 2019 amounted to RMB33.74 million (as at 31 December 2018: RMB38.59 million).

(d) Supplementary defined contribution plan

The Group has established a supplementary defined contribution plan for its qualified employees which is administered by CITIC Group (Note 37 (b)).

(e) Transactions with state-owned entities in the PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred to as "state-owned entities").

Transactions with state-owned entities, including CNTC's indirect subsidiaries and Poly Group's indirect subsidiaries, include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— derivative transactions;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. The pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. The Directors are of opinion that none of these transactions are material related party transactions that require separate disclosure.

(Amounts in millions of Renminbi unless otherwise stated)

59 Structured entities

(a) Unconsolidated structured entities sponsored and managed by third parties

The Group invests in unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 31 December 2019 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the consolidated statement of financial position under which relevant assets are recognised:

	31 December 2019				
	Carrying amount				
	Financial investments at fair value through profit or loss	**Financial investments at amortised cost**	**Financial investments at fair value through other Comprehensive income**	**Total**	**Maximum loss exposure**
Wealth management product of other banks	**133**	**—**	**—**	**133**	**133**
Investment management products managed by securities companies	**—**	**186,217**	**—**	**186,217**	**186,217**
Turst management plans	**17**	**160,248**	**—**	**160,265**	**160,265**
Asset-backed securities	**87**	**101,684**	**132,222**	**233,993**	**233,993**
Investment funds	**218,491**	**—**	**—**	**218,491**	**218,491**
Total	**218,728**	**448,149**	**132,222**	**799,099**	**799,099**

	31 December 2018				
	Carrying amount				
	Financial investments at fair value through profit or loss	Financial investments at amortised cost	Financial investments at fair value through other Comprehensive income	Total	Maximum loss exposure
Wealth management product of other banks	116	—	—	116	116
Investment management products managed by securities companies	—	228,502	—	228,502	228,502
Turst management plans	26,486	151,582	—	178,068	178,068
Asset-backed securities	1,289	39,846	61,994	103,129	103,129
Investment funds	189,176	—	—	189,176	189,176
Total	217,067	419,930	61,994	698,991	698,991

The maximum exposures to risk in the above wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities managed by securities companies and trust investment funds are the carrying value of the assets held by the Group at the reporting date. The maximum exposures to risk in the asset-backed securities are the amortised cost or fair value of the assets held by the Group at the reporting date in accordance with the line items under which these assets are presented in the consolidated statement of financial position.

59 Structured entities (Continued)

(b) Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed wealth management products. The wealth management products invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these wealth management products, the Group invests, on behalf of its customers, in assets as described in the investment plan related to each wealth management product and receives fee and commission income.

As at 31 December 2019, the total assets invested by these outstanding non-principal guaranteed wealth management products issued by the Group amounted to RMB1,200,192 million (31 December 2018: RMB1,058,907 million).

During the year ended 31 December 2019, the Group's interest in these wealth management products included fee and commission income of RMB935 million (2018: RMB2,628 million); interest income of RMB1,259 million (2018: RMB2,271 million) and interest expense of RMB846 million (2018: RMB620 million).

As at 31 December 2019, the placements and financial assets held under resale agreements from the Group with these wealth management products sponsored by the Group amounted to RMB53,500 million (31 December 2018: RMB63,500 million), while the placements from these wealth management products to the Group amounted to RMB35,162 million (31 December 2018: RMB44,605 million). During the year ended 31 December 2019, the amount of maximum exposure of the placements and financial assets held under resale agreements from the Group with these wealth management products sponsored by the Group was RMB60,077 million (31 December 2018: RMB68,144 million), and the amount of maximum exposure of the placements from these wealth management products to the Group was RMB12,711 million (31 December 2018: RMB13,435 million). These transactions were conducted under normal business terms and conditions.

In 2019, the Group purchased fixed income assets of RMB23,875 million (2018: Nil) from above-mentioned structured entities, and the considerations of such assets were based on the fair value of their underlying assets at the time of purchase.

On December 31, 2019, the assets under the abovementioned financial management services included RMB166,444 million (31 December 2018: RMB188,892 million) managed by subsidiaries and associated enterprises of the CITIC Group.

(c) Principal guaranteed wealth management products sponsored and managed by the Group

Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items in accordance with the Group's accounting policies based on the nature of the assets and liabilities.

60 Transfers of financial assets

The Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements.

These transactions were entered into in the normal course of business by which recognised financial assets were transferred to third parties or structured entities. Transfers of assets may give rise to full or partial de-recognition of the financial assets concerned. On the other hand, where transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Details of the financial assets sold under repurchase agreements are set forth in Note 35. Details of securitisation transactions, structured transfers on assets usufruct and loan transfer transactions conducted by the Group for the year ended 31 December 2019 totally RMB77,356 million (year ended 31 December 2018: RMB227,518 million) are set forth below.

Securitisation transactions and structured transfers on assets usufruct

The Group enters into securitisation transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognise the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note 4 (c) and Note 5.

During the year ended 31 December 2019, the Group entered into securitisation transactions and structured transfers on assets usufruct backed by financial assets transferred with book value before impairment of RMB67,562 million (year ended 31 December 2018: RMB192,665 million). RMB44,594 million of this balance (year ended 31 December 2018: RMB7,197 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. The Group also recognised other assets and other liabilities of RMB5,859 million (year ended 31 December 2018: RMB897 million) arising from such continuing involvement. The remaining balance of the loans transferred were qualified for full de-recognition.

Loan transfers

During the year ended 31 December 2019, the Group also through other types of transactions transferred loans of book value before impairment of RMB9,794 million (during the year of 2018: RMB34,853 million). All of them are non-performing loans. The Group carried out assessment based on the criteria as detailed in Note 4 (c) and Note 5 (iv) and concluded that these transferred assets qualified for full de-recognition.

61 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

As at 31 December 2019, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(Amounts in millions of Renminbi unless otherwise stated)

62 Statements of financial position and changes in equity of the Bank

Statement of financial position

	31 December 2019	31 December 2018
Assets		
Cash and balances with central banks	**455,377**	533,393
Deposits with banks and non-bank financial institutions	**108,523**	78,758
Precious metals	**6,865**	4,988
Placements with and loans to banks and non-bank financial institutions	**164,896**	144,364
Derivative financial assets	**11,250**	26,571
Financial assets held under resale agreements	**9,954**	10,790
Loans and advances to customers	**3,673,860**	3,285,963
Financial investments		
— at fair value through profit or loss	**308,577**	293,542
— at amortised cost	**924,028**	777,883
— at fair value through other comprehensive income	**557,543**	449,350
— designated at fair value through other comprehensive income	**2,581**	2,242
Investments in subsidiaries and joint ventures	**25,163**	25,008
Property, plant and equipment	**21,931**	20,956
Right-of-use assets	**11,743**	—
Intangible assets	**1,347**	1,301
Deferred tax assets	**31,334**	22,458
Other assets	**78,114**	33,108
Total assets	**6,393,086**	5,710,675
Liabilities		
Borrowings from central banks	**240,258**	286,350
Deposits from banks and non-bank financial institutions	**955,451**	782,768
Placements from banks and non-bank financial institutions	**42,241**	71,482
Financial liabilities at fair value through profit or loss	—	962
Derivative financial liabilities	**10,907**	25,784
Financial assets sold under repurchase agreements	**111,838**	120,095
Deposits from customers	**3,824,031**	3,397,318
Accrued staff costs	**10,879**	9,508
Taxes payable	**7,929**	4,086
Lease liabilities	**10,255**	—
Provisions	**6,027**	4,944
Debt securities issued	**638,839**	541,053
Other liabilities	**35,606**	44,800
Total liabilities	**5,894,261**	5,289,150
Equity		
Share capital	**48,935**	48,935
Preference shares	**78,083**	34,955
Capital reserve	**61,359**	61,359
Other comprehensive income	**6,332**	5,167
Surplus reserve	**39,009**	34,450
General reserve	**80,648**	73,370
Retained earnings	**184,459**	163,289
Total equity	**498,825**	421,525
Total liabilities and equity	**6,393,086**	5,710,675

(Amounts in millions of Renminbi unless otherwise stated)

62 Statements of financial position and changes in equity of the Bank (Continued)

Statement of changes in equity

	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 31 December 2018/ As at 1 January 2019	48,935	34,955	61,359	5,167	34,450	73,370	163,289	421,525
(i) Net profit	—	—	—	—	—	—	45,592	45,592
(ii) Other comprehensive income	—	—	—	1,165	—	—	—	1,165
Total comprehensive income	—	—	—	1,165	—	—	45,592	46,757
(iii) Investor capital								
— Issue convertible bonds	—	3,135	—	—	—	—	—	3,135
(iv) Issue other equity instruments								
— Preferred stock	—	—	—	—	—	—	—	—
— Undated capital bonds	—	39,993	—	—	—	—	—	39,993
(v) Profit appropriations								
— Appropriations to surplus reserve	—	—	—	—	4,559		(4,559)	—
— Appropriations to general reserve	—	—	—	—		7,278	(7,278)	—
— Dividend distribution to ordinary shareholders of the bank	—	—	—	—	—	—	(11,255)	(11,255)
— Dividend distribution to preference shareholders of the bank	—	—	—	—	—	—	(1,330)	(1,330)
As at 31 December 2019	48,935	78,083	61,359	6,332	39,009	80,648	184,459	498,825

	Share capital	Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 31 December 2017	48,935	34,955	61,359	(9,782)	31,183	73,370	147,982	388,002
Changes in accounting policy	—	—	—	4,478	(939)	—	(8,442)	(4,903)
As at 1 January 2018	48,935	34,955	61,359	(5,304)	30,244	73,370	139,540	383,099
(i) Net profit	—	—	—	—	—	—	42,057	42,057
(ii) Other comprehensive income	—	—	—	10,471	—	—	—	10,471
Total comprehensive income	—	—	—	10,471	—	—	42,057	52,528
(iii) Profit appropriations								
— Appropriations to surplus reserve	—	—	—	—	4,206	—	(4,206)	—
— Dividend distribution to ordinary shareholders of the bank	—	—	—	—	—	—	(12,772)	(12,772)
— Dividend distribution to preference shareholders of the bank	—	—	—	—	—	—	(1,330)	(1,330)
As at 31 December 2018	48,935	34,955	61,359	5,167	34,450	73,370	163,289	421,525

For the year ended 31 December 2019
(Amounts in millions of Renminbi unless otherwise stated)

63 Benefits and interests of directors and supervisors

(a) Directors and supervisors' emoluments

The remuneration of the Bank's director and supervisor is set out below:

For the year ended 31 December 2019

	Emoluments paid or receivable in respect of services as director or supervisor of the Group								
Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Allowances and benefits in kind (note (vii)) RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director and supervisor RMB'000	Emoluments paid or receivable in respect of director or supervisor's other services in connection with the management of the affairs of the Group RMB'000	Total RMB'000
Executive directors									
Li Qingping Note (i)	–	–	–	–	–	–	–	–	–
Fang Heying	–	825	1,124	–	38	245	–	–	2,232
Guo Danghuai	–	600	764	–	38	241	–	–	1,643
Non-executive directors									
Cao Guoqiang Note (i)	–	–	–	–	–	–	–	–	–
Huang Fang Note (i)	–	–	–	–	–	–	–	–	–
Wan Liming Note (i)	–	–	–	–	–	–	–	–	–
Independent non-executive directors									
He Cao	300	–	–	–	–	–	–	–	300
Chen Lihua	300	–	–	–	–	–	–	–	300
Qian Jun	300	–	–	–	–	–	–	–	300
Ying Liji	300	–	–	–	–	–	–	–	300
Supervisors									
Liu Cheng	–	700	790	–	38	149	–	–	1,677
Deng Changqing Note (i)	–	–	–	–	–	–	–	–	–
Wang Xiuhong	300	–	–	–	–	–	–	–	300
Jia Xiangsen	300	–	–	–	–	–	–	–	300
Zheng Wei	300	–	–	–	–	–	–	–	300
Chen Panwu	–	440	1,483	–	51	208	–	–	2,182
Zeng Yufang	–	330	702	–	38	213	–	–	1,283
Li Gang	–	390	990	–	51	224	–	–	1,655
Former Directors and Supervisors resigned in 2019									
Sun Deshun Note (ii)	–	525	733	–	22	125	–	–	1,405
Cheng Pusheng Note (iii)	–	360	910	–	44	165	–	–	1,479

(Amounts in millions of Renminbi unless otherwise stated)

63 Benefits and interests of directors and supervisors (Continued)

(a) Directors and supervisors' emoluments (Continued)

For the year ended 31 December 2018

	Emoluments paid or receivable in respect of services as director or supervisor of the Group								
Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Allowances and benefits in kind (note (vii)) RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director and supervisor RMB'000	Emoluments paid or receivable in respect of director or supervisor's other services in connection with the management of the affairs of the Group RMB'000	Total RMB'000
Executive directors									
Li Qingping	–	–	–	–	–	–	–	–	–
Fang Heying	–	600	652	–	132	184	–	–	1,568
Non-executive directors									
Cao Guoqiang	–	233	229	–	104	63	–	–	629
Huang Fang	–	–	–	–	–	–	–	–	–
Wan Liming	–	–	–	–	–	–	–	–	–
Independent non-executive directors									
He Cao	300	–	–	–	–	–	–	–	300
Chen Lihua	300	–	–	–	–	–	–	–	300
Qian Jun	300	–	–	–	–	–	–	–	300
Ying Liji	82	–	–	–	–	–	–	–	82
Supervisors									
Liu Cheng	–	467	451	–	47	99	–	–	1,064
Deng Changqing	–	–	–	–	–	–	–	–	–
Wang Xiuhong	300	–	–	–	–	–	–	–	300
Jia Xiangsen	300	–	–	–	–	–	–	–	300
Zheng Wei	300	–	–	–	–	–	–	–	300
Cheng Pusheng	–	360	2,373	–	164	178	–	–	3,075
Chen Panwu	–	440	2,327	–	179	184	–	–	3,130
Zeng Yufang	–	330	2,457	–	117	329	–	–	3,233
Former Directors and Supervisors resigned in 2018									
Chang Zhenming	–	–	–	–	–	–	–	–	–
Shu Yang	225	–	–	–	–	–	–	–	–
Wu Xiaoqing	225	–	–	–	–	–	–	–	225
Wang Lianzhang	–	–	–	–	–	–	–	–	225
Zhu Gaoming	–	–	–	–	–	–	–	–	–
Sun Deshun	–	900	1,124	–	222	209	–	–	2,455

63 Benefits and interests of directors and supervisors (Continued)

(a) Directors and supervisors' emoluments (Continued)

Notes:

(i) Mrs. Li Qingping, Mr. Cao Guoqiang, Mrs. Huang Fang, Mr. Wan Liming, and Mr. Deng Changqing did not receive any eTwo of the four directors are delegated by CITIC Limited and CITIC Group ("parent companies"). Their emoluments were paid by the Group. The other two directors and the supervisor are delegated respectively by Xinhu Zhongbao Co., Ltd, CNTC and Poly Group and provide service to both the parent company and the bank. Their emolument allocation are not disclosed due to the difficulty to differentiate the services provided by the four directors and the supervisor.

(ii) Mr. Sun Deshun resigned in February, 2019

(iii) Mr. Cheng Pusheng resigned in May, 2019

(b) Other benefits and interests

No direct or indirect retirement benefits and termination benefits were paid to directors as at 31 December 2019 (as at December 2018: Nil).

For the year ended 31 December 2019 and 31 December 2018, the balance of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors was not significant.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year 2019 (2018: Nil).

64 Events after the reporting period

(a) Since the novel coronavirus outbreak (hereinafter referred to as the "covid-19 outbreak") in January 2020, and the disease control and prevention efforts have been going on across China and other countries and regions. The Group has been devoting full attention and resources to implementing the state's decisions and deployment, applying itself in supporting the real economy, and facilitating disease control and prevention through effective financial services.

The covid-19 outbreak has created considerable impact on the overall economic activities and the business operations of certain enterprises, and accordingly has affected the credit quality of and return on the financial assets of the Group, the extent of which will depend on the development and duration of the disease, effectiveness of disease control and prevention efforts, the impact of the disease on customers in different regions and industries, as well as the implementation and effectiveness of relevant regulation policies. The Group will stay alert to and updated on the development of the disease, and continue to assess the impact of the covid-19 outbreak on the financial position and operating results of the Group and actively take response actions as needed.

(b) With the approvals of the regulatory authorities and the Board of Directors, CITIC Bank was cleared to make a public offering of RMB50 billion special financial bonds for small and micro enterprises (Special SmE Bonds) in the national interbank bond market.

On 18 March 2020, CITIC Bank issued the 2020 Series 1 Special SmE Bonds. The funds raised will be used to provide loans to small and micro enterprises to help them overcome the difficult period caused by the covid-19 outbreak. The three-year bonds have a coupon rate of 2.75%. The Series 2 will be issued as needed, with a total amount of no more than RMB20 billion.

65 Comparative data

Certain comparative data has been restated to conform to the presentation of the current year.

Chapter 10 Report on Review of Interim Financial Information

To the Board of Directors of China CITIC Bank Corporation Limited

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

Introduction

We have reviewed the interim financial information set out on pages 106 to 207, which comprises the consolidated interim statement of financial position of China CITIC Bank Corporation Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2020 and the consolidated interim statement of profit or loss and other comprehensive income, the consolidated interim statement of changes in equity, the consolidated interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2020

Chapter 10 Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020
(Amounts in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Notes	**2020 Unaudited**	2019 Unaudited
Interest income		**140,295**	130,777
Interest expense		**(75,360)**	(69,265)
Net interest income	4	**64,935**	61,512
Fee and commission income		**27,933**	26,843
Fee and commission expense		**(2,577)**	(2,901)
Net fee and commission income	5	**25,356**	23,942
Net trading gain	6	**2,218**	2,682
Net gain from investment securities	7	**9,569**	4,941
Net hedging loss		**(1)**	(3)
Other operating income		**123**	118
Operating income		**102,200**	93,192
Operating expenses	8	**(23,675)**	(24,673)
Operating profit before impairment		**78,525**	68,519
Credit impairment losses	9	**(47,229)**	(33,956)
Impairment losses on other assets	10	**(496)**	(234)
Revaluation (loss)/gain on investment properties		**(34)**	6
Share of (loss)/gain of associates and joint ventures		**(20)**	107
Profit before tax		**30,746**	34,442
Income tax expense	11	**(4,782)**	(5,605)
Profit for the period		**25,964**	28,837
Profit attributable to:			
Equity holders of the Bank		**25,541**	28,307
Non-controlling interests		**423**	530
Profit for the period		**25,964**	28,837
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss (net of tax):			
— Net changes on the measurement of defined benefit plan		**—**	(1)
— Fair value changes on financial investments designated at fair value through other comprehensive income		**(47)**	44
— Fair value changes on transfers from owner-occupied property to investment property		**53**	—
Items that may be reclassified subsequently to profit or loss (net of tax):			
— Other comprehensive income transferable to profit or loss under equity method		**(5)**	1
— Fair value changes on financial assets at fair value through other comprehensive income		**(1,601)**	(108)
— Impairment allowance on financial assets at fair value through other comprehensive income		**427**	524
— Exchange difference on translating foreign operations		**951**	(203)
Other comprehensive income, net of tax	12	**(222)**	257
Total comprehensive income for the period		**25,742**	29,094
Total comprehensive income attribute to:			
Equity holders of the Bank		**25,261**	28,464
Non-controlling interests		**481**	630
Earnings per share attributable to the ordinary shareholders of the Bank			
Basic earnings per share (RMB)	13	**0.52**	0.58
Diluted earnings per share (RMB)		**0.48**	0.55

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

Chapter 10 Consolidated Interim Statement of Financial Position

As at 30 June 2020

(Amounts in millions of Renminbi unless otherwise stated)

	Notes	**30 June 2020 Unaudited**	31 December 2019 Audited
Assets			
Cash and balances with central banks	14	**424,377**	463,158
Deposits with banks and non-bank financial institutions	15	**111,131**	121,297
Precious metals		**4,434**	6,865
Placements with and loans to banks and non-bank financial institutions	16	**220,414**	204,547
Derivative financial assets	17	**25,050**	17,117
Financial assets held under resale agreements	18	**38,061**	9,954
Loans and advances to customers	19	**4,090,669**	3,892,602
Financial investments	20	**1,991,665**	1,873,596
— at fair value through profit or loss		**303,654**	317,546
— at amortised cost		**944,479**	924,234
— at fair value through other comprehensive income		**739,881**	628,780
— designated at fair value through other comprehensive income		**3,651**	3,036
Investments in associates and joint ventures	21	**3,657**	3,672
Investment properties	23	**455**	426
Property, plant and equipment	24	**22,178**	22,372
Right-of-use assets	25	**11,664**	12,390
Intangible assets		**1,799**	1,874
Goodwill	26	**931**	912
Deferred tax assets	27	**42,837**	32,095
Other assets	28	**91,294**	87,556
Total assets		**7,080,616**	6,750,433
Liabilities			
Borrowings from central banks		**126,229**	240,298
Deposits from banks and non-bank financial institutions	30	**995,685**	951,122
Placements from banks and non-bank financial institutions	31	**71,980**	92,539
Financial liabilities at fair value through profit or loss		**5,582**	847
Derivative financial liabilities	17	**24,633**	16,836
Financial assets sold under repurchase agreements	32	**104,942**	111,838
Deposits from customers	33	**4,484,465**	4,073,258
Accrued staff costs	34	**17,987**	20,924
Taxes payable	35	**10,054**	8,865
Debt securities issued	36	**635,713**	650,274
Lease liabilities	25	**10,490**	10,896
Provisions	37	**6,181**	6,116
Deferred tax liabilities	27	**11**	10
Other liabilities	38	**40,298**	34,086
Total liabilities		**6,534,250**	6,217,909

Chapter 10 Consolidated Interim Statement of Financial Position (Continued)

As at 30 June 2020

(Amounts in millions of Renminbi unless otherwise stated)

	Notes	**30 June 2020 Unaudited**	31 December 2019 Audited
Equity			
Share capital	39	**48,935**	48,935
Other equity instruments	40	**78,083**	78,083
Capital reserve	41	**58,977**	58,977
Other comprehensive income	42	**7,081**	7,361
Surplus reserve	43	**39,009**	39,009
General reserve	44	**81,535**	81,535
Retained earnings	45	**217,257**	203,411
Total equity attributable to equity holders of the Bank		**530,877**	517,311
Non-controlling interests	46	**15,489**	15,213
Total equity		**546,366**	532,524
Total liabilities and equity		**7,080,616**	6,750,433

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

Approved and authorised for issue by the board of directors on 27 August 2020.

Li Qingping	**Fang Heying**	**Li Peixia**	**Company stamp**
Legal Representative (Chairperson)	*Executive Director President and Chief Financial Officer*	*General Manager of Finance Department*	

Chapter 10 Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2020

(Amounts in millions of Renminbi unless otherwise stated)

	Notes	Equity attributable to equity holders of the Bank: Share capital	Other Equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests: Ordinary shareholders in subsidiaries	Other equity instruments holders	Total equity
As at 31 December 2019/1 January 2020		48,935	78,083	58,977	7,361	39,009	81,535	203,411	8,546	6,667	532,524
(i) Profit for the period		—	—	—	—	—	—	25,541	224	199	25,964
(ii) Other comprehensive income	12	—	—	—	(280)	—	—	—	58	—	(222)
Total comprehensive income		—	—	—	(280)	—	—	25,541	282	199	25,742
(iii) Profit appropriations											
— Dividend distribution to ordinary shareholders of the Bank	45	—	—	—	—	—	—	(11,695)	—	—	(11,695)
— Dividend distribution to non-controlling interests		—	—	—	—	—	—	—	(6)	—	(6)
— Dividend distribution to other equity instruments holders	46	—	—	—	—	—	—	—	—	(199)	(199)
As at 30 June 2020		48,935	78,083	58,977	7,081	39,009	81,535	217,257	8,822	6,667	546,366

Chapter 10 Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 30 June 2019

(Amounts in millions of Renminbi unless otherwise stated)

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Other Equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary shareholders in subsidiaries	Other equity instruments holders	Total equity
As at 31 December 2018/1 January 2019		48,935	34,955	58,977	5,269	34,450	74,255	179,820	7,933	8,492	453,086
(i) Profit for the period		—	—	—	—	—	—	28,307	259	271	28,837
(ii) Other comprehensive income	12	—	—	—	157	—	—	—	100	—	257
Total comprehensive income		—	—	—	157	—	—	28,307	359	271	29,094
(iii) Issuing of other equity instruments											
— Convertible corporate bonds		—	3,135	—	—	—	—	—	—	—	3,135
— Redemption of other equity instruments		—	—	—	—	—	—	—	—	(1,825)	(1,825)
(iv) Profit appropriations											
— Dividend distribution to ordinary shareholders of the Bank	45	—	—	—	—	—	—	(11,255)	—	—	(11,255)
— Dividend distribution to non-controlling interests		—	—	—	—	—	—	—	(6)	—	(6)
— Dividend distribution to other equity instruments holders	46	—	—	—	—	—	—	—	—	(271)	(271)
As at 30 June 2019		48,935	38,090	58,977	5,426	34,450	74,255	196,872	8,286	6,667	471,958

		Equity attributable to equity holders of the Bank							Non-controlling interests		
	Notes	Share capital	Other Equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Ordinary equity holders	Other equity instruments holders	Total equity
As at 31 December 2018/1 January 2019		48,935	34,955	58,977	5,269	34,450	74,255	179,820	7,933	8,492	453,086
(i) Net profit		—	—	—	—	—	—	48,015	509	470	48,994
(ii) Other comprehensive income	12	—	—	—	2,092	—	—	—	110	—	2,202
Total comprehensive income		—	—	—	2,092	—	—	48,015	619	470	51,196
(iii) Issuing of other equity instruments											
— Convertible corporate bonds		—	3,135	—	—	—	—	—	—	—	3,135
— Undated capital bonds		—	39,993	—	—	—	—	—	—	—	39,993
— Redemption of other equity instruments		—	—	—	—	—	—	—	—	(1,825)	(1,825)
(iv) Profit appropriations											
— Appropriations to surplus reserve	43	—	—	—	—	4,559	—	(4,559)	—	—	—
— Appropriations to general reserve	44	—	—	—	—	—	7,280	(7,280)	—	—	—
— Dividend distribution to ordinary shareholders of the Bank	45	—	—	—	—	—	—	(11,255)	—	—	(11,255)
— Dividend distribution to non-controlling interests		—	—	—	—	—	—	—	(6)	—	(6)
— Dividend distribution to preference shareholders		—	—	—	—	—	—	(1,330)	—	—	(1,330)
— Dividend distribution to other equity instruments holders	46	—	—	—	—	—	—	—	—	(470)	(470)
As at 31 December 2019		48,935	78,083	58,977	7,361	39,009	81,535	203,411	8,546	6,667	532,524

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

Chapter 10 Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2020
(Amounts in millions of Renminbi unless otherwise stated)

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Operating activities		
Profit before tax	**30,746**	34,442
Adjustments for:		
— revaluation gains on investments, derivatives and investment properties	**(863)**	(526)
— investment gains	**(7,979)**	(3,445)
— net (gains)/losses on disposal of property, plant and equipment, intangible assets and other assets	**(3)**	32
— unrealised foreign exchange gains	**(88)**	(458)
— credit impairment losses	**47,229**	33,956
— impairment losses on other assets	**496**	234
— depreciation and amortisation	**1,395**	1,366
— interest expense on debt securities issued	**10,743**	11,361
— dividend income from equity investment	**(3)**	(180)
— depreciation of right-of-use assets and interest expense on lease liabilities	**1,915**	1,845
— income tax paid	**(14,562)**	(9,247)
Subtotal	**69,026**	69,380
Changes in operating assets and liabilities:		
(Increase)/Decrease in balances with central banks	**(11,530)**	44,895
Decrease in deposits with banks and non-bank financial institutions	**9,134**	9,342
Increase in placements with and loans to banks and non-bank financial institutions	**(8,476)**	(26,791)
(Increase)/Decrease at fair value through the profit or loss in financial assets	**(19,888)**	7,742
Increase in financial assets held under resale agreements	**(28,099)**	(33,940)
Increase in loans and advances to customers non-bank financial institutions	**(230,062)**	(262,403)
Decrease in borrowings from central banks	**(113,520)**	(47,610)
Increase deposits from banks and non-bank financial institutions	**42,895**	63,624
Decrease in placements from banks and non-bank financial institutions	**(20,857)**	(55,313)
Increase/(Decrease) in financial liabilities at fair value through profit or loss	**4,675**	(958)
Decrease in financial assets sold under repurchase agreements	**(6,879)**	(77,312)
Increase in deposits from customers	**400,019**	384,805
Increase in other operating assets	**(27,021)**	(48,279)
Increase/(Decrease) in other operating liabilities	**7,436**	(18,635)
Subtotal	**(2,171)**	(60,833)
Net cash flows from operating activities	**66,853**	8,547

For the six months ended 30 June 2020
(Amounts in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Notes	**2020 Unaudited**	2019 Unaudited
Investing activities			
Proceeds from disposal and redemption of investments		**1,141,291**	998,944
Proceeds from disposal of property, plant and equipment, land use rights, and other assets		**25**	489
Cash received from equity investment income		**421**	180
Payments on acquisition of investments		**(1,257,414)**	(1,188,443)
Payments on acquisition of property, plant and equipment, land use rights and other assets		**(1,091)**	(1,193)
Net cash flows used in investing activities		**(116,768)**	(190,023)
Financing activities			
Cash received from debt securities issued		**263,936**	264,925
Cash paid for redemption of debt securities issued		**(274,863)**	(210,246)
Interest paid on debt securities issued		**(11,728)**	(10,772)
Dividends paid		**(205)**	(277)
Principal and interest paid for leasing liabilities		**(1,627)**	(1,112)
Net cash flows from financing activities		**(24,487)**	42,518
Net decrease in cash and cash equivalents		**(74,402)**	(138,958)
Cash and cash equivalents as at 1 January		**342,449**	376,009
Effect of exchange rate changes on cash and cash equivalents		**2,406**	(18)
Cash and cash equivalents as at 30 June	47	**270,453**	237,033
Cash flows from operating activities include:			
Interest received		**141,571**	130,101
Interest paid		**(57,382)**	(58,685)

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

1 Corporate information

China CITIC Bank Corporation Limited (the "Bank" or "CNCB") is a joint stock company incorporated in the People's Republic of China (the "PRC" or "Mainland China") on 31 December 2006. Headquartered in Beijing, the Bank's registered office is located at No.9 Chaoyangmen Beidajie, Dongcheng District, Beijing, China. The Bank listed its A shares and H shares on Shanghai Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited, respectively on 27 April 2007.

The Bank operates under financial services certificate No. B0006H111000001 issued by the China Banking Insurance and Regulatory Commission (the "CBIRC", originally named China Banking Regulatory Commission), and unified social credit code No. 91110000101690725E issued by the State Administration of Industry and Commerce of the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, financial leasing and other non-banking financial services.

As at 30 June 2020, the Group mainly operates in Mainland China with branches covering 31 provinces, autonomous regions and municipalities, and overseas. In addition, the Bank's subsidiaries have operations in Mainland China, the Hong Kong Special Administrative Region of PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and other overseas countries and regions.

For the purpose of these consolidated interim financial statements, Mainland China refers to the PRC excluding Hong Kong, Macau and Taiwan. Overseas refers to countries and regions other than Mainland China.

The consolidated interim financial statements were approved by the Board of Directors of the Bank on 27 August 2020.

2 Basis of preparation

The consolidated interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

3 Principle accounting policies

The consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. The accounting policies and methods of computation used in preparing the consolidated interim financial statements are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The consolidated interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019, which have been audited.

3 Principle accounting policies (Continued)

(a) Standards and amendments effective in 2020 relevant to and adopted by the Group

In the current interim period, the Group has adopted the following International Financial Reporting Standards ("IFRSs") and amendments issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current year. Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the six months ended 30 June.

(1)	Amendments to IFRS 3	(i)	Definition of a business
(2)	Amendments to IAS 1 and IAS 8	(ii)	Definition of material
(3)	Amendments to IFRS 9, IAS 39 and IFRS 7	(iii)	Interest rate benchmark reform

Adoption of the above standards and amendments has no significant impact on the operating results, comprehensive income or financial position of the Group.

(i) Amendments to IFRS 3- definition of a business

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

(ii) Amendments to IAS 1 and IAS 8- definition of material.

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

(iii) Amendments to IFRS 9, IAS 39 and IFRS 7- Interest rate benchmark reform

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting requirements, and the effect that IBOR reform would not result in discontinuation of hedge accounting if the hedge meets other hedge accounting criteria. However, any hedge ineffectiveness should continue to be recorded in the income statement.

(Amounts in millions of Renminbi unless otherwise stated)

3 Principle accounting policies (Continued)

(b) Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and revised IFRSs and IFRS interpretations that have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee but are not yet effective.

				Effective for annual periods beginning on or after
(1)	Amendments to IAS 1	(i)	Classification of Liabilities as Current or Non-current	1 January 2022
(2)	Amendments to IFRS 3	(ii)	Reference to the Conceptual Framework	1 January 2022
(3)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	(iii)	IASB Annual Improvements 2018 — 2020 cycle	1 January 2022
(4)	Amendments to IFRS 10 and IAS 28	(iv)	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.

(i) Amendments to IAS 1: Classification of Liabilities as Current or Non-current

On 23 January 2020, the IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment requires the following:

— Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights, since loans are rarely unconditional (for example, because the loan might contain covenants).

— The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right. So, management's expectations do not affect classification.

— The right to defer only exists if the entity complies with any relevant conditions at the reporting date. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date.

— 'Settlement' is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

The amendment changes the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. All entities should reconsider their existing classification in the light of the amendment and determine whether any changes are required. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

3 Principle accounting policies (Continued)

(b) Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group (Continued)

(ii) Amendments to IFRS 3: Reference to the Conceptual Framework

The IASB issued amendments to IFRS 3: Reference to the Conceptual Framework. The amendments have updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(iii) Annual improvements 2018-2020 cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)

The IASB issued amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual improvements 2018-2020 cycle, which include fees included in the 10% test for derecognition of financial liabilities, illustrative examples accompanying IFRS 16, 'Leases', subsidiary as a first-time adopter and taxation in fair value measurements. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(iv) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

(Amounts in millions of Renminbi unless otherwise stated)

4 Net interest income

	Six months ended 30 June	
	2020	2019
Interest income arising from (Note(i)):		
Deposits with central banks	**3,030**	2,969
Deposits with banks and non-bank financial institutions	**1,406**	637
Placements with and loans to banks and non-bank financial institutions	**2,603**	3,421
Financial assets held under resale agreements	**450**	409
Loans and advances to customers		
— corporate loans	**51,729**	49,229
— personal loans	**46,200**	39,965
— discounted bills	**4,947**	5,133
Financial investments		
— at amortised cost	**19,639**	19,267
— at fair value through other comprehensive income	**10,288**	9,741
Others	**3**	6
Subtotal	**140,295**	130,777
Interest expense arising from:		
Borrowings from central banks	**(3,620)**	(4,198)
Deposits from banks and non-bank financial institutions	**(12,517)**	(12,414)
Placements from banks and non-bank financial institutions	**(1,184)**	(1,927)
Financial assets sold under repurchase agreements	**(1,047)**	(775)
Deposits from customers	**(46,006)**	(38,335)
Debt securities issued	**(10,743)**	(11,361)
Lease liabilities	**(241)**	(252)
Others	**(2)**	(3)
Subtotal	**(75,360)**	(69,265)
Net interest income	**64,935**	61,512

Note:

(i) Interest income includes interest income accrued on credit-impaired financial assets of RMB173 million for the six months ended 30 June 2020 (Six months ended 30 June 2019: RMB169 million).

(Amounts in millions of Renminbi unless otherwise stated)

5 Net fee and commission income

	Six months ended 30 June	
	2020	2019
Fee and commission income:		
Bank card fees	**15,914**	16,737
Agency fees and commission (Note (i))	**4,672**	3,402
Commission for custodian business and other fiduciary	**4,102**	3,477
Guarantee and advisory fees	**2,524**	2,466
Settlement and clearance fees	**679**	728
Others	**42**	33
Total	**27,933**	26,843
Fee and commission expense	**(2,577)**	(2,901)
Net fee and commission income	**25,356**	23,942

Note:

(i) Agency fees and commission represent fees earned from selling bonds, investment funds and insurance products, and provision of entrusted lending activities.

6 Net trading gain

	Six months ended 30 June	
	2020	2019
Debt securities and certificates of interbank deposit	**1,195**	1,376
Foreign currencies	**1,019**	1,181
Derivatives and related exposures	**4**	125
Total	**2,218**	2,682

7 Net gain from investment securities

	Six months ended 30 June	
	2020	2019
Financial investments		
— at fair value through profit or loss	**4,776**	3,742
— at amortised cost	**379**	—
— at fair value through other comprehensive income	**(68)**	(1,468)
Revaluation gain on transfer out of equity at disposal	**3,723**	2,336
Net gain from bills rediscounting	**593**	232
Net gain from securitisation of financial assets	**1**	(16)
Others	**165**	115
Total	**9,569**	4,941

(Amounts in millions of Renminbi unless otherwise stated)

8 Operating expenses

	Six months ended 30 June	
	2020	2019
Staff costs		
— other short-term benefits	**12,489**	12,668
— post-employment benefits — defined contribution plans	**735**	1,190
— post-employment benefits — defined benefit plans	**—**	5
— other long-term benefits	**2**	2
Subtotal	**13,226**	13,865
Property and equipment expenses		
— depreciation	**2,580**	2,438
— amortisation expenses	**489**	521
— rent and property management expenses	**443**	798
— maintenance and others	**729**	584
Subtotal	**4,241**	4,341
Tax and surcharges	**1,012**	899
Other general operating and administrative expenses	**5,196**	5,568
Total	**23,675**	24,673

9 Credit impairment losses

	Six months ended 30 June	
	2020	2019
Credit impairment losses		
Deposits with banks and non-bank financial institutions	**(28)**	(31)
Placements with and loans to banks and non-bank financial institutions	**13**	(59)
Financial assets held under resale agreements	**5**	18
Interest receivables	**2,066**	1,126
Loans and advances to customers	**38,253**	33,599
Financial investments		
— at amortised cost	**6,122**	485
— at fair value through other comprehensive income	**557**	537
Other receivables	**203**	(1,304)
Off-balance sheet items	**38**	(415)
Total	**47,229**	33,956

(Amounts in millions of Renminbi unless otherwise stated)

10 Impairment losses on other assets

	Six months ended 30 June	
	2020	2019
Repossessed assets	**496**	234

11 Income tax

(a) Recognised in the consolidated interim statement of profit or loss and other comprehensive income

		Six months ended 30 June	
	Note	**2020**	2019
Current tax			
— Mainland China		**14,899**	8,892
— Hong Kong		**33**	227
— Overseas		**24**	16
Deferred tax	27(c)	**(10,174)**	(3,530)
Income tax		**4,782**	5,605

Mainland China and Hong Kong income tax have been provided at the rate of 25% and 16.5% respectively. Overseas tax has been provided at the rates of taxation prevailing in the regions in which the Group operates respectively.

(b) Reconciliation between income tax expense and accounting profit

	Six months ended 30 June	
	2020	2019
Profit before tax	**30,746**	34,442
Income tax calculated at PRC statutory tax rate	**7,686**	8,611
Effect of different tax rates in other regions	**(64)**	(141)
Tax effect of non-deductible expenses	**940**	120
Tax effect of non-taxable income		
— interest income arising from PRC government bonds and interest income arising from local government bonds	**(2,979)**	(2,265)
— the dividends of funds	**(795)**	(608)
— others	**(6)**	(112)
Income tax	**4,782**	5,605

(Amounts in millions of Renminbi unless otherwise stated)

12 Other comprehensive income, net of tax

	Six months ended 30 June	
	2020	2019
Items that will not be reclassified subsequently to profit or loss		
Changes on the measurement of defined benefit plans, net of tax		
— net changes recognised during the year before tax	**—**	(1)
— income tax	**—**	—
Fair value changes on financial asset designated at fair value through other comprehensive income, net of tax		
— net changes in fair value recognised during the year before tax	**(45)**	55
— income tax	**(2)**	(11)
Fair value changes on self-used fixed assets transferred into investment real estate		
— net changes during the year	**53**	—
Subtotal	**6**	43
Items that may be reclassified subsequently to profit or loss		
Other comprehensive income transferable to profit or loss under equity method		
— net changes during the year	**(5)**	1
Fair value changes on financial assets at fair value through other comprehensive income, net of tax (Note(i))		
— net changes during the year before tax	**1,611**	2,139
— net amount transferred to profit or loss	**(3,775)**	(2,336)
— Income tax	**563**	89
Credit impairment allowance on financial assets at fair value through other comprehensive income (Note(ii))		
— net changes during the year	**551**	700
— Income tax	**(124)**	(176)
Exchange differences on translation	**951**	(203)
Subtotal	**(228)**	214
Other comprehensive income, net of tax	**(222)**	257

Notes:

(i) Fair value changes on financial assets at fair value through other comprehensive income include those of financial investments and loans and advances to customers at fair value through other comprehensive income (Note 19(a)).

(ii) Credit impairment allowance include financial investments and loans and advances to customers at fair value through other comprehensive income (Note 19(b)).

(Amounts in millions of Renminbi unless otherwise stated)

13 Earnings per share

Earnings per share information for the six months ended 30 June 2020 and 2019 is computed by dividing the profit for the period attributable to ordinary shareholders of the Bank by the weighted average number of shares in issue during the period.

The Bank issued non-cumulative preference shares in 2016 under the terms and conditions as detailed in Note 40. No cash dividend on preference shares was declared during the six months ended 30 June 2020.

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur as at 30 June 2020, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

The diluted earnings per share are calculated on the assumption that all the Bank's convertible corporate bonds had been converted into ordinary shares at the beginning of the period, by dividing the net profit for the year attributable to ordinary shareholders of the Bank after adjustments for the interest expenses of convertible corporate bonds for the period, by the adjusted weighted average number of outstanding ordinary shares for the year.

	Six months ended 30 June	
	2020	2019
Profit attributable to equity holders of the Bank	**25,541**	28,307
Less: profit for the period attributable to preference shareholders of the Bank	**—**	—
Profit for the period attributable to ordinary shareholders of the Bank	**25,541**	28,307
Weighted average number of shares (in million shares)	**48,935**	48,935
Basic earnings per share (in RMB)	**0.52**	0.58
Diluted earnings per share (in RMB)	**0.48**	0.55

14 Cash and balances with central banks

	Notes	**30 June 2020**	31 December 2019
Cash		**6,127**	6,345
Balances with central banks			
— statutory deposit reserve funds	(i)	**365,247**	354,074
— surplus deposit reserve funds	(ii)	**47,520**	97,602
— fiscal deposits	(iii)	**1,990**	1,890
— foreign exchange reserve	(iv)	**3,344**	3,080
Accrued interest		**149**	167
Total		**424,377**	463,158

Notes:

(i) The Group places statutory deposit reserve funds with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserve funds are not available for use in the Group's daily business.

As at 30 June 2020, the statutory deposit reserve funds placed with the PBOC was calculated at 9% of eligible Renminbi deposits for domestic branches of the Bank and at 9% of eligible Renminbi deposits from overseas financial institutions. The Bank was also required to deposit an amount equivalent to 5% of its foreign currency deposits from domestic branch customers as statutory deposit reserve funds.

The statutory RMB deposit reserve rates applicable to Zhejiang Lin'an CITIC Rural Bank Corporation Limited, a subsidiary of the Group, was at 6%.

The amounts of statutory deposit reserves funds placed with the central banks of overseas countries are determined by respective jurisdictions. The statutory deposit reserve funds are interest bearing except for the foreign currency reserve funds deposits placed with the PBOC.

(ii) The surplus deposit reserve funds are maintained with the PBOC for the purposes of clearing.

(iii) Fiscal deposits placed with the PBOC are not available for use in the Group's daily operations, and are non-interest bearing.

(iv) The foreign exchange reserve is maintained with the PBOC in accordance with the related notice issued by the PBOC. The reserve is payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign exchange reserve is non-interest bearing and will be repayable in 12 months according to the Notice.

(Amounts in millions of Renminbi unless otherwise stated)

15 Deposits with banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	**30 June 2020**	31 December 2019
In Mainland China			
— banks		**82,351**	89,740
— non-bank financial institutions		**3,956**	5,188
Subtotal		**86,307**	94,928
Outside Mainland China			
— banks		**22,888**	25,785
— non-bank financial institutions		**624**	11
Subtotal		**23,512**	25,796
Accrued interest		**1,427**	715
Gross balance		**111,246**	121,439
Less: Allowances for impairment losses	29	**(115)**	(142)
Net balance		**111,131**	121,297

(b) Analysed by remaining maturity

	Note	**30 June 2020**	31 December 2019
Demand deposits (Note (i))		**33,183**	39,638
Time deposits with remaining maturity			
— within one month		**6,190**	1,620
— between one month and one year		**70,446**	79,466
Subtotal		**76,636**	81,086
Accrued interest		**1,427**	715
Gross balance		**111,246**	121,439
Less: Allowances for impairment losses	29	**(115)**	(142)
Net balance		**111,131**	121,297

Note:

(i) As at 30 June 2020, the carrying amount of pledged deposits with banks and other financial institutions was RMB475 million (31 December 2019: RMB849 million). These deposits were mainly maintenance margin with a regulatory body.

(Amounts in millions of Renminbi unless otherwise stated)

16 Placements with and loans to banks and non-bank financial institutions

(a) Analysed by types and locations of counterparties

	Note	**30 June 2020**	31 December 2019
In Mainland China			
— banks		**22,103**	22,773
— non-bank financial institutions		**111,579**	119,330
Subtotal		**133,682**	142,103
Outside Mainland China			
— banks		**85,936**	61,306
— non-bank financial institutions		**—**	—
Subtotal		**85,936**	61,306
Accrued interest		**890**	1,219
Gross balance		**220,508**	204,628
Less: Allowances for impairment losses	29	**(94)**	(81)
Net balance		**220,414**	204,547

(b) Analysed by remaining maturity

	Note	**30 June 2020**	31 December 2019
Within one month		**130,014**	126,867
Between one month and one year		**80,804**	62,092
Over one year		**8,800**	14,450
Accrued interest		**890**	1,219
Gross balance		**220,508**	204,628
Less: Allowances for impairment losses	29	**(94)**	(81)
Net balance		**220,414**	204,547

17 Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in foreign exchange, precious metals, interest rate and credit derivatives related to trading, asset and liability management and customer initiated transactions. The Group, through the operations of its branch network, acts as an intermediary for a wide range of customers for structuring deals to offer risk management solutions to match individual customer needs. These positions are actively managed through hedging transactions with external parties to ensure the Group's net exposures are within acceptable risk levels. The Group also uses these derivatives for proprietary trading purposes and to manage its own asset and liability and structural positions. Derivatives, except for those which are designated as hedging instruments (Note 17 (c)), are held for trading. Derivatives classified as held for trading are for trading and customer initiated transactions purpose, and those for risk management purposes but do not meet the criteria for hedge accounting.

The contractual/notional amounts of derivatives provide a basis for comparison with fair values of derivatives recognised on the consolidated interim statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the derivatives and, therefore, do not indicate the Group's exposure to credit or market risks.

(Amounts in millions of Renminbi unless otherwise stated)

17 Derivatives (Continued)

	30 June 2020			31 December 2019		
	Nominal amount	**Assets**	**Liabilities**	Nominal amount	Assets	Liabilities
Hedging instruments (Note (c))						
— interest rate derivatives	**783**	**—**	**66**	2,890	15	17
Non-Hedging instruments						
— interest rate derivatives	**3,194,616**	**14,206**	**13,863**	2,883,406	5,188	5,159
— currency derivatives	**1,932,033**	**10,152**	**9,688**	1,513,070	11,700	10,928
— precious metal derivatives	**25,384**	**691**	**1,016**	12,715	214	732
— credit derivatives	**190**	**1**	**—**	—	—	—
Total	**5,153,006**	**25,050**	**24,633**	4,412,081	17,117	16,836

(a) Nominal amount analysed by remaining maturity

	30 June 2020	31 December 2019
Within three months	**2,239,505**	1,746,119
Between three months and one year	**1,860,901**	1,753,923
Between one year and five years	**1,025,726**	896,911
Over five years	**26,874**	15,128
Total	**5,153,006**	4,412,081

(b) Credit risk weighted amounts

The credit risk weighted amount has been computed in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" promulgated by the CBIRC in the year of 2012, and depends on the status of the counterparties and the maturity characteristics of the instruments, including those customer-driven back-to-back transactions. As at 30 June 2020, the total amount of credit risk weighted amount for counterparty was RMB25,539 million (31 December 2019: RMB14,631 million).

(c) Fair value hedge

A subsidiary of the Group utilises fair value hedge to eliminate the effect of fair value changes of financial assets and financial liabilities caused by market interest rate fluctuations. Interest rate swap contracts are used for hedging interest risks arising from debt securities at fair value through other comprehensive income, certificates of deposit and subordinated bonds issued.

(Amounts in millions of Renminbi unless otherwise stated)

18 Financial assets held under resale agreements

(a) Analysed by types and locations of counterparties

	Note	**30 June 2020**	31 December 2019
In Mainland China			
— banks		**23,758**	10,001
— non-bank financial institutions		**14,288**	—
Subtotal		**38,046**	10,001
Outside Mainland China			
— banks		**65**	—
Accrued interest		**2**	—
Gross balance		**38,113**	10,001
Less: Allowance for impairment losses	29	**(52)**	(47)
Net balance		**38,061**	9,954

(b) Analysed by types of collateral

As at 30 June 2020 and 31 December 2019, the collateral type of financial asset under resale agreements of the Group are all debt instruments. The collateral received by the Group in resale transactions are disclosed in Note 49 Collateral.

(c) Analysed by remaining maturity

As at 30 June 2020 and 31 December 2019, the financial assets held under resale agreements of the Group all mature within one month.

(Amounts in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers

(a) Analysed by nature

	Note	**30 June 2020**	31 December 2019
Loans and advances to customers at amortised cost			
Corporate loans and advances			
— loans		**2,047,714**	1,911,597
— discounted bills		**1,904**	3,787
— finance lease receivables		**38,015**	43,000
Subtotal		**2,087,633**	1,958,384
Personal loans and advances			
— residential mortgages		**834,168**	776,657
— credit cards		**481,127**	514,657
— personal consumption		**193,710**	205,483
— business loans		**236,028**	227,102
Subtotal		**1,745,033**	1,723,899
Accrued interest		**11,662**	10,104
Gross balance		**3,844,328**	3,692,387
Less: Allowances impairment losses	29		
— principal		**(135,357)**	(115,403)
— interest		**(159)**	(86)
Loans and advances to customers at amortised cost, net		**3,708,812**	3,576,898
Loans and advances to customers at fair value through other comprehensive income			
— loans		**3,288**	922
— discounted bills		**371,524**	307,867
Carrying amount of loans and advances at fair value through other comprehensive income		**374,812**	308,789
— fair value changes through other comprehensive income		**(227)**	(48)
Loans and advances to customers at fair value through profit or loss			
Personal loans and advances			
— residential mortgages		**7,045**	6,915
Total		**4,090,669**	3,892,602
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income		**(451)**	(467)

(Amounts in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (Continued)

(b) Analysed by assessment method of allowance for impairment losses

	Note	30 June 2020 Stage one	 Stage two	 Stage three (Note (i))	 Total
Gross loans and advances to customers at amortised costs		**3,628,874**	**118,465**	**85,327**	**3,832,666**
Accrued interest		**11,348**	**314**	**—**	**11,662**
Less: Allowance for impairment losses	29	**(39,113)**	**(36,735)**	**(59,668)**	**(135,516)**
Carrying amount of loans and advances to customers measured at Amortised cost		**3,601,109**	**82,044**	**25,659**	**3,708,812**
Carrying amount of loans and advances to customers at fair value through other comprehensive income		**374,555**	**228**	**29**	**374,812**
Total		**3,975,664**	**82,272**	**25,688**	**4,083,624**
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	29	**(431)**	**—**	**(20)**	**(451)**

	Note	31 December 2019 Stage one	 Stage two	 Stage three (Note (i))	 Total
Gross loans and advances to customers at amortised costs		3,516,330	96,397	69,556	3,682,283
Accrued interest		9,320	773	11	10,104
Less: Allowance for impairment losses	29	(35,562)	(26,088)	(53,839)	(115,489)
Carrying amount of loans and advances to customers measured at Amortised cost		3,490,088	71,082	15,728	3,576,898
Carrying amount of loans and advances to customers at fair value through other comprehensive income		308,712	48	29	308,789
Total		3,798,800	71,130	15,757	3,885,687
Allowances for impairment losses on loans and advances to customers at fair value through other comprehensive income	29	(453)	—	(14)	(467)

Note:

(i) Stage 3 loans are loans and advances to customers that have incurred credit impairment.

	30 June 2020	31 December 2019
Secured portion	**48,205**	41,596
Unsecured portion	**37,151**	27,989
Gross balance	**85,356**	69,585
Allowance for impairment losses	**(59,688)**	(53,853)
Total	**25,668**	15,732

As at 30 June 2020, the maximum exposure covered by pledge and collateral held of secured portion is RMB46,869 million (as at 31 December 2019: RMB40,206 million).

The fair value of collateral was estimated by management based on the latest revaluation including available external valuation, if any, adjusted by taking into account the current realisation experience as well as market situation.

(Amounts in millions of Renminbi unless otherwise stated)

19 Loans and advances to customers (Continued)

(c) Overdue loans analysed by overdue period

	30 June 2020				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**14,937**	**13,416**	**2,091**	**215**	**30,659**
Guaranteed loans	**8,650**	**7,487**	**5,088**	**448**	**21,673**
Loans with pledged assets					
— loans secured by collateral	**22,771**	**17,724**	**14,088**	**1,848**	**56,431**
— pledged loans	**17,266**	**2,446**	**2,484**	**83**	**22,279**
Total	**63,624**	**41,073**	**23,751**	**2,594**	**131,042**

	31 December 2019				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	17,173	10,511	1,507	144	29,335
Guaranteed loans	10,353	6,350	4,191	230	21,124
Loans with pledged assets					
— loans secured by collateral	23,901	11,134	10,810	2,012	47,857
— pledged loans	2,439	1,865	1,288	101	5,693
Total	53,866	29,860	17,796	2,487	104,009

Overdue loans represent loans of which the principal or interest are overdue one day or more.

(d) Finance lease receivables and Payment for resale arrangement

Finance lease receivables and payment for resale arrangement transactions are attributable to the Group's subsidiaries, CITIC Financial Leasing Limited ("CFLL") and CITIC International Finance Holdings Limited ("CIFH"), include net investment in machines and equipment leased to customers under finance lease and hire purchase contracts which have the characteristics of finance leases. The remaining period of these contracts range from 1 to 25 years. The total finance lease receivables and payment for resale arrangement transactions under finance lease and hire purchase contracts and their present values are as follows:

	30 June 2020	31 December 2019
Within one year (including one year)	**8,160**	11,619
One year to two years (including two years)	**6,127**	9,935
Two years to three years (including three years)	**4,071**	6,689
Over three years	**19,657**	14,757
Gross balance	**38,015**	43,000
Less: Allowance for impairment losses		
— stage one	**(538)**	(690)
— stage two	**(1,735)**	(1,153)
— stage three	**(150)**	(150)
Net balance	**35,592**	41,007

(Amounts in millions of Renminbi unless otherwise stated)

20 Financial investments

(a) Analysed by types

	Note	**30 June 2020**	31 December 2019
Financial assets at fair value through profit or loss			
Investment funds		**203,723**	218,491
Debt securities		**51,815**	42,870
Certificates of deposit		**32,511**	46,792
Equity instruments		**9,708**	8,424
WMPs and investments through structured entities		**5,879**	952
Trust investment plans (Note(i))		**18**	17
Net balance		**303,654**	317,546
Financial assets at amortised cost			
Debt securities		**667,179**	574,644
Trust investment plans (Note(i))		**159,894**	160,248
Investment management products managed by securities companies (Note(i))		**118,098**	186,217
Certificates of deposit		**163**	—
Subtotal		**945,334**	921,109
Accrued interest		**12,061**	9,901
Less: Allowance for impairment losses	29	**(12,916)**	(6,776)
— principal		**(12,880)**	(6,758)
— accrued interest		**(36)**	(18)
Net balance		**944,479**	924,234
Financial assets at fair value through other comprehensive income (Note(ii))			
Debt securities		**609,340**	616,794
Investment management products managed by securities companies (Note(i))		**119,742**	—
Certificates of deposit		**4,266**	4,866
Subtotal		**733,348**	621,660
Accrued interest		**6,533**	7,120
Net balance		**739,881**	628,780
Allowances for impairment losses on investments in financial assets at fair value through other comprehensive income	29	**(2,202)**	(1,631)
Financial assets designated at fair value through other comprehensive income (Note(ii))		**3,651**	3,036
Total		**1,991,665**	1,873,596

(Amounts in millions of Renminbi unless otherwise stated)

20 Financial investments (Continued)

(a) Analysed by types (Continued)

Notes:

(i) As of 30 June 2020, RMB85,925 million (31 December 2019: RMB84,447 million) of Trust investment plans and Investment management products managed by securities companies listed above were managed by the subsidiaries and related companies of CITIC Corporation Limited, the Bank's immediate parent company.

The underlying assets of Trust investment plans and Investment management products managed by securities companies primarily include credit assets, interbank assets and rediscounted bills (Note 56 (a)).

(ii) Financial investments at fair value through other comprehensive income:

	Note	30 June 2020 Equity instruments	Debt security instruments	Total
Costs/Amortised cost		**4,803**	**727,651**	**732,454**
Fair value change on accumulated into other comprehensive income		**(1,152)**	**5,697**	**4,545**
Fair value		**3,651**	**733,348**	**736,999**
Allowance for impairment losses	29		**(2,202)**	**(2,202)**

	Note	31 December 2020 Equity instruments	Debt security instruments	Total
Costs/Amortised cost		4,140	614,035	618,175
Fair value change on accumulated into other comprehensive income		(1,104)	7,625	6,521
Fair value		3,036	621,660	624,696
Allowance for impairment losses	29		(1,631)	(1,631)

(b) Analysed by location of counterparties

	Note	30 June 2020	31 December 2019
In Mainland China			
— governments		**749,598**	653,797
— policy banks		**96,531**	98,832
— banks and non-bank financial institutions		**953,145**	916,083
— corporates		**97,164**	102,415
— public entities		**43**	—
Subtotal		**1,896,481**	1,771,127
Outside Mainland China			
— governments		**20,615**	20,986
— banks and non-bank financial institutions		**38,915**	42,069
— corporates		**28,990**	28,829
— public entities		**986**	340
Subtotal		**89,506**	92,224
Accrued interest		**18,594**	17,021
Total		**2,004,581**	1,880,372
Less: Allowance for impairment losses	29	**(12,916)**	(6,776)
Net balance		**1,991,665**	1,873,596
Listed in Hong Kong		**51,654**	44,990
Listed outside Hong Kong		**1,509,676**	1,436,126
Unlisted		**430,335**	392,480
Total		**1,991,665**	1,873,596

Bonds traded in China's inter-bank bond market are listed outside Hong Kong.

(Amounts in millions of Renminbi unless otherwise stated)

20 Financial investments (Continued)

(c) Analysed by assessment method of allowance for impairment losses

	Note	30 June 2020 Stage one	Stage two	Stage three	Total
Financial assets at amortised costs		**924,275**	**2,610**	**18,449**	**945,334**
Accrued interest		**11,961**	**100**	**—**	**12,061**
Less: Allowance for impairment losses	29	**(4,897)**	**(339)**	**(7,680)**	**(12,916)**
Net Balance		**931,339**	**2,371**	**10,769**	**944,479**
Financial assets at fair value through other comprehensive income		**733,204**	**129**	**15**	**733,348**
Accrued interest		**6,532**	**1**	**—**	**6,533**
Net Balance		**739,736**	**130**	**15**	**739,881**
Total carrying amount of financial assets affected by credit risk		**1,671,075**	**2,501**	**10,784**	**1,684,360**
Allowance for impairment losses of other debt instruments included in other comprehensive income		**(1,863)**	**(3)**	**(336)**	**(2,202)**

	Note	31 December 2019 Stage one	Stage two	Stage three	Total
Financial assets at amortised costs		901,695	10,716	8,698	921,109
Accrued interest		9,825	76	—	9,901
Less: Allowance for impairment losses	29	(3,614)	(334)	(2,828)	(6,776)
Net Balance		907,906	10,458	5,870	924,234
Financial assets at fair value through other comprehensive income		621,337	123	200	621,660
Accrued interest		7,120	—	—	7,120
Net Balance		628,457	123	200	628,780
Total carrying amount of financial assets affected by credit risk		1,536,363	10,581	6,070	1,553,014
Allowance for impairment losses of other debt instruments included in other comprehensive income		(1,331)	(3)	(297)	(1,631)

(Amounts in millions of Renminbi unless otherwise stated)

21 Investments in associates and joint ventures

	Notes	30 June 2020	31 December 2019
Investments in joint ventures	(a)	**2,983**	2,914
Investments in associates	(b)	**674**	758
Total		**3,657**	3,672

(a) Investment in joint ventures

The details of the joint ventures as at 30 June 2020 were as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares	Principal activities	Nominal value of issued shares
CITIC aiBank Corporation Limited ("Baixin") (Note (i))	Corporation	Mainland China	70%	Financial services	RMB4 billion
JSC Altyn Bank (Note(ii))	Corporation	Kazakhstan	50.1%	Financial services	KZT 7.05 billion

Notes:

(i) According to the Articles of Association, the Bank and Fujian BoRui Network Technology Co.,Ltd. ("Fujian BoRui") shall jointly approve main critical events before further development.

(ii) According to the Articles of Association of JSC Altyn Bank, decisions regarding all major activities of JSC Altyn Bank shall be subject to the joint approval of the Bank and the other shareholder, the JSC Halyk Bank of Kazakhstan.

Financial statements of the joint ventures are as follow:

	As at or for the period ended 30 June 2020				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total net assets**	**Operating income**	**Net gain**
Baixin	**54,353**	**51,084**	**3,269**	**804**	**7**
JSC Altyn Bank	**9,792**	**8,714**	**1,078**	**242**	**135**

	As at or for the year ended 2019				
Name of Enterprise	Total assets	Total liabilities	Total net assets	Operating income	Net gain
Baixin	58,865	55,620	3,245	2,373	20
JSC Altyn Bank	9,520	8,487	1,033	472	259

Movement of the Group's interests in the joint ventures:

	Six months ended 30 June 2020	Year ended 31 December 2019
Initial investment cost	**3,229**	3,229
As at 1 January	**2,914**	2,759
Share of net loss of the joint ventures for the period	**71**	154
Exchange difference	**(2)**	1
As at 30 June/31 December	**2,983**	2,914

(Amounts in millions of Renminbi unless otherwise stated)

21 Investments in associates and joint ventures (Continued)

(b) Investment in associates

The Group holds its investment in associates through subsidiaries and details of the associates as at 30 June 2020 was as follows:

Name of company	Form of business structure	Place of incorporation	Effective percentage of shares and voting right held by the Group	Principal activities	Nominal value of issued shares
CITIC International Assets Management Limited ("CIAM")	Corporation	Hong Kong	46%	Investment holding and assets management	HKD2,218 million
Binhai (Tianjin) Financial Assets Exchange Company Limited ("BFAE")	Corporation	Mainland China	20%	Services and investment	RMB500 million

Financial statements of the associates are as follow:

	As at or for the period ended 30 June 2020				
Name of Enterprise	**Total assets**	**Total liabilities**	**Total net assets**	**Operating income**	**Net loss**
CIAM	**1,346**	**156**	**1,190**	**(16)**	**(63)**
BFAE	**442**	**42**	**400**	**14**	**—**

	As at or for the year ended 2019				
Name of Enterprise	Total assets	Total liabilities	Total net asset	Operating Income	Net loss
CIAM	1,540	172	1,368	(38)	(133)
BFAE	428	26	402	150	(50)

Movement of the Group's interests in associates:

	Six months ended 30 June 2020	Year ended 31 December 2019
Initial investment cost	**1,168**	1,168
As at 1 January	**758**	1,122
Reductions	**—**	(321)
Share of net loss of associates for the year	**(91)**	(52)
Share of other comprehensive income of associates for the year	**(4)**	—
Exchange difference	**11**	9
As at 31 December	**674**	758

(Amounts in millions of Renminbi unless otherwise stated)

22 Investments in subsidiaries

	Notes	**30 June 2020**	31 December 2019
Investments in subsidiaries			
— CIFH	(i)	**16,570**	16,570
— CNCB (Hong Kong) Investment Limited ("CNCB Investment")	(ii)	**1,577**	1,577
— Zhejiang Lin'an CITIC Rural Bank Corporation Limited ("Lin'an Rural Bank")	(iii)	**102**	102
— CFLL	(iv)	**4,000**	4,000
Total		**22,249**	22,249

Major subsidiaries of the Group as at 30 June 2020 are as follows:

Name of entity	Place of incorporation	Particulars of the issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership held by subsidiaries of the Bank	The Group's effective interest
CIFH (Note (i))	Hong Kong	HKD7,503 million	Commercial banking and other financial services	100%	—	100%
CNCB Investment (Note (ii))	Hong Kong	HKD1,889 million	Investment and lending services	99.05%	0.71%	99.76%
Lin'an Rural Bank (Note (iii))	Mainland China	RMB200 million	Commercial banking	51%	—	51%
CFLL (Note (iv))	Mainland China	RMB4,000 million	Financial lease operations	100%	—	100%

Notes:

(i) CIFH is an investment holding company registered and headquartered in Hong Kong. Its business scope through its subsidiaries covers commercial banking and other financial services. The Bank holds 100% shareholding in CIFH. CIFH holds 75% shareholding in CITIC Bank International Limited ("CBI").

(ii) CNCB Investment was founded in Hong Kong in 1984. Holding a money lending licence issued by the Hong Kong Company Registry, CNCB Investment's business scope includes capital market investment, lending and other related services. The Bank holds 99.05% shareholding in CNCB Investment, and CIFH holds the remaining 0.71% shareholding in CNCB Investment. The Bank effectively held 99.76% shareholding in CNCB Investment.

(iii) Lin'an Rural Bank was founded in Zhejiang Province of Mainland China in 2011 with a registered capital of RMB200 million. Its principal activities are commercial banking related businesses. The Bank holds 51% of Lin'an Rural Bank's shares and voting rights.

(iv) The Bank established CFLL in 2015 with a registered capital of RMB4 billion. Its principal business activities is financial leasing. The Bank holds 100% of its shares and voting rights.

23 Investment properties

	Six months ended 30 June 2020	Year ended 31 December 2019
Fair value as at 1 January	**426**	443
Change in fair value	**(34)**	(15)
Transfers in/(out)	**54**	(10)
Exchange differences	**9**	8
Fair value as at 30 June/31 December	**455**	426

Investment properties of the Group are buildings held by subsidiaries and mainly located in Hong Kong and leased to third parties through operating leases. There are active real estate markets where the investment properties are located and the Group is able to obtain market price and related information of similar properties, and therefore makes estimation about the fair value of the investment properties as at 30 June 2020.

All investment properties of the Group were revalued at 30 June 2020 by an independent firm of surveyors on an open market value basis. The fair value is in line with the definition of "IFRS13 — Fair value measurement". The revaluation surplus has been recognised in the profit or loss for the current year.

The investment properties of the Group are categorised into Level 3.

(Amounts in millions of Renminbi unless otherwise stated)

24 Property, plant and equipment

	Buildings	Construction in progress	Computer equipment and others	Total
Cost or deemed cost:				
As at 1 January 2020	**22,599**	**1,616**	**11,768**	**35,983**
Additions	**78**	**224**	**451**	**753**
Transfers out	**(56)**	**—**	**—**	**(56)**
Disposals	**—**	**—**	**(213)**	**(213)**
Exchange differences	**11**	**—**	**17**	**28**
As at 30 June 2020	**22,632**	**1,840**	**12,023**	**36,495**
Accumulated depreciation:				
As at 1 January 2020	**(5,524)**		**(8,087)**	**(13,611)**
Depreciation charges	**(349)**		**(542)**	**(891)**
Transfers in	**3**		**—**	**3**
Disposals	**—**		**202**	**202**
Exchange differences	**(6)**		**(14)**	**(20)**
As at 30 June 2020	**(5,876)**		**(8,441)**	**(14,317)**
Net carrying value:				
As at 1 January 2020	**17,075**	**1,616**	**3,681**	**22,372**
As at 30 June 2020 (Note (i))	**16,756**	**1,840**	**3,582**	**22,178**

	Buildings	Construction in progress	Computer equipment and others	Total
Cost or deemed cost:				
As at 1 January 2019	21,885	1,288	10,839	34,012
Additions	496	799	1,612	2,907
Transfer in/(out)	471	(471)	—	—
Disposals	(263)	—	(702)	(965)
Exchange differences	10	—	19	29
As at 31 December 2019	22,599	1,616	11,768	35,983
Accumulated depreciation:				
As at 1 January 2019	(4,949)		(7,678)	(12,627)
Depreciation charges	(694)		(1,048)	(1,742)
Transfer out	—		—	—
Disposals	125		656	781
Exchange differences	(6)		(17)	(23)
As at 31 December 2019	(5,524)		(8,087)	(13,611)
Net carrying value:				
As at 1 January 2019	16,936	1,288	3,161	21,385
As at 31 December 2019 (Note (i))	17,075	1,616	3,681	22,372

Note:

(i) As at 30 June 2020, the registration transfer process of certain buildings acquired has not been completed, and the net book value of such buildings was approximately RMB1,200 million (as at 31 December 2019: RMB1,211 million). The Group believes the incomplete registration procedure does not affect the rights of the Group as the legal successor to these buildings.

(Amounts in millions of Renminbi unless otherwise stated)

25 Right-of-use assets

	Buildings	**Land use right**	**Equipment**	**Vehicles and others**	**Total**
Cost or deemed cost:					
As at 1 January 2020	**14,501**	**1,219**	**126**	**47**	**15,893**
Additions	**1,171**	**2**	**4**	**3**	**1,180**
Reductions	**(249)**	**—**	**(2)**	**(2)**	**(253)**
Exchange differences	**14**	**—**	**—**	**—**	**14**
As at 30 June 2020	**15,437**	**1,221**	**128**	**48**	**16,834**
Accumulated depreciation:					
As at 1 January 2020	**(3,186)**	**(267)**	**(39)**	**(11)**	**(3,503)**
Accrual	**(1,650)**	**(15)**	**(19)**	**(5)**	**(1,689)**
Reductions	**28**	**—**	**—**	**—**	**28**
Exchange differences	**(6)**	**—**	**—**	**—**	**(6)**
As at 30 June 2020	**(4,814)**	**(282)**	**(58)**	**(16)**	**(5,170)**
Net carrying value:					
As at 1 January 2020	**11,315**	**952**	**87**	**36**	**12,390**
As at 30 June 2020	**10,623**	**939**	**70**	**32**	**11,664**

	Buildings	Land use right	Equipment	Vehicles and others	Total
Cost or deemed cost:					
As at 1 January 2019	12,145	1,235	125	48	13,553
Additions	2,485	—	7	—	2,492
Reductions	(146)	(16)	(6)	(1)	(169)
Exchange differences	17	—	—	—	17
As at 31 December 2019	14,501	1,219	126	47	15,893
Accumulated depreciation:					
As at 1 January 2019	—	(242)	—	—	(242)
Accrual	(3,194)	(30)	(40)	(11)	(3,275)
Reductions	10	5	1	—	16
Exchange differences	(2)	—	—	—	(2)
As at 31 December 2019	(3,186)	(267)	(39)	(11)	(3,503)
Net carrying value:					
As at 1 January 2019	12,145	993	125	48	13,311
As at 31 December 2019	11,315	952	87	36	12,390

(i) As at 30 June 2020, the balance of the Group's lease liabilities amounted to RMB10,490 million (31 December 2019: 10,896 million), including RMB3,058 million of lease liabilities that will mature within a year (31 December 2019: 3,176 million).

(ii) As at 30 June 2020, lease payments relating to lease contracts signed but yet to be executed amounted to RMB150 million (31 December 2019: 113 million).

(iii) For the six months ended 30 June 2020, the lease expense of short-term leases with a lease term of no more than 12 months and leases of assets with low values when new amounted to RMB87 million (for the six months ended 30 June 2019: 407 million).

(Amounts in millions of Renminbi unless otherwise stated)

26 Goodwill

	Six months ended 30 June 2020	Year ended 31 December 2019
As at 1 January	**912**	896
Exchange differences	**19**	16
As at 30 June/31 December	**931**	912

Based on the result of impairment test, no impairment losses on goodwill were recognised as at 30 June 2020 (31 December 2019: Nil).

27 Deferred tax assets/(liabilities)

	30 June 2020	31 December 2019
Deferred tax assets	**42,837**	32,095
Deferred tax liabilities	**(11)**	(10)
Net balance	**42,826**	32,085

(a) Analysed by nature and jurisdiction

	30 June 2020		31 December 2019	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
— allowance for impairment losses	**167,861**	**41,837**	129,678	32,209
— fair value adjustments	**(10,898)**	**(2,690)**	(11,559)	(2,865)
— employee retirement benefits and salaries payable	**13,017**	**3,254**	10,202	2,551
— others	**1,601**	**436**	985	200
Subtotal	**171,581**	**42,837**	129,306	32,095
Deferred tax liabilities				
— fair value adjustments	**(68)**	**(11)**	(56)	(10)
Total	**171,513**	**42,826**	129,250	32,085

(b) Offsetting of deferred tax assets and deferred tax liabilities

As at 30 June 2020, the deferred tax assets/liabilities offset by the Group were RMB3,131 million (31 December 2019: RMB3,223 million).

(Amounts in millions of Renminbi unless otherwise stated)

27 Deferred tax assets/(liabilities) (Continued)

(c) Movement of deferred tax

	Allowance for impairment losses	Fair value adjustments	Employee retirement benefits and accrued staff cost	Others	Total deferred tax
As at 1 January 2020	**32,209**	**(2,875)**	**2,551**	**200**	**32,085**
Recognised in profit or loss	**9,620**	**(385)**	**703**	**236**	**10,174**
Recognised in other comprehensive income	**—**	**561**	**—**	**2**	**563**
Exchange differences	**8**	**(2)**	**—**	**(2)**	**4**
As at 30 June 2020	**41,837**	**(2,701)**	**3,254**	**436**	**42,826**
As at 1 January 2019	23,729	(2,542)	1,857	114	23,158
Recognised in profit or loss	8,371	(72)	676	81	9,056
Recognised in other comprehensive income	103	(261)	18	6	(134)
Exchange differences	6	—	—	(1)	5
As at 31 December 2019	32,209	(2,875)	2,551	200	32,085

28 Other assets

	Notes	30 June 2020	31 December 2019
Advanced payments and settlement accounts		**34,856**	34,921
Prepayments for properties and equipment	(i)	**11,310**	11,721
Fee and commission receivables		**7,945**	2,716
Assets transfer receivables		**7,255**	12,698
Assets with continuing involvement		**7,045**	6,915
Prepayments for assets acquired for finance leases		**6,381**	4,466
Precious metal leasing		**4,135**	3,071
Interest receivables		**3,480**	2,119
Repossessed assets	(ii)	**1,597**	2,326
Leasehold improvements		**537**	663
Prepaid rent		**10**	45
Others	(iii)	**6,743**	5,895
Total		**91,294**	87,556

Notes:

(i) Prepayments for properties and equipment are mainly payments the Group made for office premises being constructed.

(ii) Repossessed assets

	30 June 2020	31 December 2019
Premises	**3,169**	3,491
Others	**2**	3
Gross balance	**3,171**	3,494
Less: Allowance for impairment losses	**(1,574)**	(1,168)
Net balance	**1,597**	2,326

As at 30 June 2020, the Group intended to dispose all of the repossessed assets, and had no plan to transfer the repossessed assets for own use. (as at 31 December 2019: Nil)

(iii) Others include provisional legal costs for lawyers and other receivables.

(Amounts in millions of Renminbi unless otherwise stated)

29 Movements of allowance for impairment losses

	Notes	Six months ended 30 June 2020 As at 1 January	Charge/ (reversal) for the period	Write-offs/ transfer out	Others Notes (i)	As at 30 June
Allowance for credit impairment losses						
Deposits with bank and non-bank financial institutions	15	**142**	**(28)**	**—**	**1**	**115**
Placements with and loans to banks and non-bank financial institutions	16	**81**	**13**	**—**	**—**	**94**
Financial assets held under resale agreements	18	**47**	**5**	**—**	**—**	**52**
Loans and advances to customers	19	**115,870**	**38,253**	**(23,530)**	**5,215**	**135,808**
Financial investments	20					
— at amortised cost		**6,758**	**6,122**	**—**	**—**	**12,880**
— at fair value through other comprehensive income		**1,631**	**557**	**—**	**14**	**2,202**
Other financial assets (Notes(ii))		**4,048**	**2,269**	**(980)**	**277**	**5,614**
Off balance sheet credit assets	37	**5,646**	**38**	**—**	**9**	**5,693**
Subtotal		**134,223**	**47,229**	**(24,510)**	**5,516**	**162,458**
Allowance for impairment losses on other assets						
Other assets — repossessed assets		**1,168**	**496**	**(93)**	**3**	**1,574**
Subtotal		**1,168**	**496**	**(93)**	**3**	**1,574**

	Notes	Year ended 31 December 2019 As at 1 January	Charge/ (reversal) for the year	Write-offs/ transfer out	Others Notes (i)	As at 31 December
Allowance for credit impairment losses						
Deposits with bank and non-bank financial institutions	15	74	67	—	1	142
Placements with and loans to banks and non-bank financial institutions	16	165	(84)	—	—	81
Financial assets held under resale agreements	18	4	43	—	—	47
Loans and advances to customers	19	101,154	68,793	(60,686)	6,609	115,870
Financial investments	20					
— at amortised cost		3,355	3,589	(186)	—	6,758
— at fair value through other comprehensive income		1,039	678	(90)	4	1,631
Other financial assets (Notes(ii))		12,072	2,493	(10,387)	(130)	4,048
Off balance sheet credit assets	37	4,543	1,100	—	3	5,646
Subtotal		122,406	76,679	(71,349)	6,487	134,223
Allowance for impairment losses on other assets						
Other assets — repossessed assets		725	576	(205)	72	1,168
Subtotal		725	576	(205)	72	1,168

Notes:

(i) Others include recovery of loans written off, and effect of exchange differences during the period.

(ii) The impairment losses of accrued interest of the financial instruments in this table and its changes are included in "Other financial assets".

(Amounts in millions of Renminbi unless otherwise stated)

30 Deposits from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	30 June 2020	31 December 2019
In Mainland China		
— banks	**345,593**	288,439
— non-bank financial institutions	**633,030**	658,614
Subtotal	**978,623**	947,053
Outside Mainland China		
— banks	**12,725**	1,300
— non-bank financial institutions	**25**	59
Subtotal	**12,750**	1,359
Accrued interest	**4,312**	2,710
Total	**995,685**	951,122

31 Placements from banks and non-bank financial institutions

Analysed by types and locations of counterparties

	30 June 2020	31 December 2019
In Mainland China		
— bank	**39,951**	45,488
— non-bank financial institutions	**11,806**	35,562
Subtotal	**51,757**	81,050
Outside Mainland China		
— bank	**19,222**	11,109
— non-bank financial institutions	**707**	—
Accrued interest	**294**	380
Total	**71,980**	92,539

32 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparties

	30 June 2020	31 December 2019
In Mainland China		
— PBOC	**61,831**	65,329
— banks	**43,106**	46,486
Subtotal	**104,937**	111,815
Accrued interest	**5**	23
Total	**104,942**	111,838

(b) Analysed by type of collateral

	30 June 2020	31 December 2019
Discounted bills	**73,136**	76,229
Debt securities	**31,801**	35,586
Accrued interest	**5**	23
Total	**104,942**	111,838

The Group did not derecognise financial assets transferred as collateral in connection with financial assets sold under repurchase agreements. As at 30 June 2020, no legal title of the Group and the Bank has been transferred to counterparties. The above information of collateral is included in the Note 49.

(Amounts in millions of Renminbi unless otherwise stated)

33 Deposits from customers

Analysed by nature

	30 June 2020	31 December 2019
Demand deposits		
— corporate customers	**1,765,055**	1,668,449
— personal customers	**308,603**	275,526
Subtotal	**2,073,658**	1,943,975
Time and call deposits		
— corporate customers	**1,726,582**	1,485,727
— personal customers	**632,870**	602,644
Subtotal	**2,359,452**	2,088,371
Outward remittance and remittance payables	**10,706**	6,474
Accrued interest	**40,649**	34,438
Total	**4,484,465**	4,073,258

Guarantee deposits included in above deposits:

	30 June 2020	31 December 2019
Bank acceptances	**188,116**	172,075
Guarantees	**10,639**	21,390
Letters of credit	**9,850**	11,754
Others	**98,924**	93,315
Total	**307,529**	298,534

34 Accrued staff costs

		Six months ended 30 June 2020			
	Notes	**As at 1 January**	**Additions during the period**	**Reductions during the period**	**As at 30 June**
Short-term staff costs	(a)	**20,512**	**12,489**	**(15,423)**	**17,578**
Post-employment benefits					
— defined contribution plans	(b)	**318**	**735**	**(726)**	**327**
Post-employment benefits					
— defined benefit plans	(c)	**19**	**—**	**(1)**	**18**
Other long-term benefits		**75**	**2**	**(13)**	**64**
Total		**20,924**	**13,226**	**(16,163)**	**17,987**

		Year ended 31 December 2019			
	Notes	As at 1 January	Additions during the year	Reductions during the year	As at 31 December
Short-term staff costs	(a)	19,548	26,879	(25,915)	20,512
Post-employment benefits					
— defined contribution plans	(b)	31	2,770	(2,483)	318
Post-employment benefits					
— defined benefit plans	(c)	35	(14)	(2)	19
Other long-term benefits		97	1	(23)	75
Total		19,711	29,636	(28,423)	20,924

(Amounts in millions of Renminbi unless otherwise stated)

34 Accrued staff costs (Continued)

(a) Short-term staff costs

Short-term staff costs include wages, bonuses, allowances and subsidies, social insurance contributions, employee benefits, housing funds, labour union funds and employee education funds, housing subsidies and other short-term benefits.

As at 30 June 2020, the Group reclassified certain items under short-term staff costs and comparatives were restated.

(b) Post-employment benefits — defined contribution plans

Post-employment benefits defined contribution plans include contributions to statutory retirement plan. Pursuant to the relevant laws and regulations in the PRC governing labor and social security, the Group joins statutory retirement plan for the employees as set out by city and provincial governments. The Group is required to make contributions based on defined ratios of the salaries, bonuses and certain allowance of the employees to the statutory retirement plan under the administration of the government.

In addition to the above statutory retirement plan, the Bank's qualified employees have joined a defined contribution retirement scheme (the "Scheme") which was established by the Group and managed by the CITIC Group. For six months ended 30 June 2020, the Bank has made annuity contributions at 4% (31 December 2019:7%) of its employee's gross wages. For six months ended 30 June 2020, the Bank made annuity contribution amounting to RMB273 million (year ended 31 December 2019: RMB1,061 million).

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme for Hong Kong staff. Contributions are charged to profit or loss when the contribution fall due.

(c) Post-employment benefits — defined benefit plans

The Group offers supplementary retirement benefits for certain of its qualified employees in Mainland China. Retired employees are eligible to join this supplementary retirement benefit plan. The amount that is recognised as at reporting date presents the discounted value of benefit obligation in the future.

The Group's obligations in respect of the supplementary retirement benefit plan as at the reporting date are based on the projected unit credit actuarial cost method and computed by a qualified professional actuary firm (a member of Society of Actuaries in the United States of America).

Except for the aforementioned contributions, the Group has no other material obligations to pay employee retirement and other post-retirement benefits.

35 Taxes payable

	30 June 2020	31 December 2019
Income tax	**5,435**	5,012
Value-added tax and surcharges	**4,601**	3,830
Others	**18**	23
Total	**10,054**	8,865

(Amounts in millions of Renminbi unless otherwise stated)

36 Debt securities issued

	Notes	30 June 2020	31 December 2019
Long-term debt securities issued	(a)	**50,715**	80,351
Subordinated bonds issued:			
— by the Bank	(b)	**69,976**	81,475
— by CBI	(c)	**3,515**	5,591
Certificates of deposit issued	(d)	**177**	2,785
Certificates of interbank deposit issued	(e)	**470,600**	438,830
Convertible corporate bonds	(f)	**38,243**	37,730
Accrued interest		**2,487**	3,512
Total		**635,713**	650,274

(a) As at 30 June 2020, long-term debt securities issued by the Group:

Bond Type	Issue Date	Maturity Date	Annual Interest Rate	30 June 2020 Nominal Value RMB	31 December 2019 Nominal Value RMB
Fixed rate bond	21 May 2015	25 May 2020	3.98%	**—**	7,000
Fixed rate bond	17 November 2015	17 November 2020	3.61%	**8,000**	8,000
Fixed rate bond	17 April 2017	17 April 2020	4.20%	**—**	50,000
Fixed rate bond	24 May 2017	24 May 2020	4.40%	**—**	2,994
Floating rate bond	14 December 2017	14 December 2020	Three-month Libor +0.9%	**4,952**	4,877
Floating rate bond	14 December 2017	15 December 2022	Three-month Libor +1%	**3,891**	3,832
Fixed rate bond	14 December 2017	14 December 2020	2.88%	**2,122**	2,090
Fixed rate bond	14 December 2017	15 December 2022	3.13%	**1,768**	1,741
Fixed rate bond	18 March 2020	18 March 2023	2.75%	**30,000**	—
Total nominal value				**50,733**	80,534
Less: Unamortised issuance cost				**(18)**	(33)
				—	(150)
Carrying value				**50,715**	80,351

(Amounts in millions of Renminbi unless otherwise stated)

36 Debt securities issued (Continued)

(b) The carrying value of the Bank's subordinated bonds issued as at 30 June/31 December:

	Notes	**30 June 2020**	31 December 2019
Subordinated fixed rate bonds maturing:			
— in May 2025	(i)	**—**	11,500
— in June 2027	(ii)	**19,986**	19,985
— in September 2028	(iii)	**29,994**	29,990
— in October 2028	(iv)	**19,996**	20,000
Total		**69,976**	81,475

Notes:

(i) The interest rate on the subordinated fixed rate bonds issued on 28 May 2010 is 4.30% per annum. The Bank redeemed the bonds on 28 May 2020.

(ii) The interest rate on the subordinated fixed rate bonds issued on 21 June 2012 is 5.15% per annum. The Bank has an option to redeem the bonds on 21 June 2022. If they are not redeemed, the interest rate of the bonds will remain at 5.15% per annum for the next five years.

(iii) The interest rate on the subordinated fixed rate bonds issued on 13 September 2018 is 4.96% per annum. The Bank has an option to redeem the bonds on 13 September 2023. If they are not redeemed, the interest rate of the bonds will remain 4.96% per annum for the next five years

(iv) The interest rate on the subordinated fixed rate bonds issued on 22 October 2018 is 4.80% per annum. The Bank has an option to redeem the bonds on 22 October 2023. If they are not redeemed, the interest rate of the bonds will remain 4.80% per annum for the next five years.

(c) The carrying value of CBI's subordinated bonds issued as at 30 June/31 December:

	Notes	**30 June 2020**	31 December 2019
Subordinated fixed rate notes maturing:			
— in June 2020	(i)	**—**	2,134
— in February 2029	(ii)	**3,515**	3,457
Total		**3,515**	5,591

Notes:

(i) CBI issued USD500 million subordinated notes at a coupon rate of 6.875% per annum on 24 June 2010. The notes are listed on the Singapore Exchange. Such subordinated notes expired on 24 June 2020.

(ii) CBI issued USD500 million subordinated notes at a coupon rate of 4.625% per annum on 28 February 2019. CBI has an option to redeem these notes on 28 February 2024. If CBI does not exercise the redemption option, the coupon rate per annum will be the 5-year US treasury bond rate on 28 February 2024, plus 2.25%. The notes are listed on the Hong Kong Stock Exchange.

(Amounts in millions of Renminbi unless otherwise stated)

36 Debt securities issued (Continued)

(d) These certificates of deposit were issued by CBI with interest rate ranging from 2.26% to 3.13% per annum.

(e) As at 30 June 2020, the Bank's outstanding large transferable certificates of interbank deposits amounted to RMB470,600 million (31 December 2019: RMB438,830 million), with reference yields ranging from 1.30% to 3.19% per annum (31 December 2019: 2.59% to 3.67%). Their original terms range from one months to one year.

(f) As approved by the relevant regulatory authorities in China, the Bank made a public offering of RMB40 billion A-share convertible corporate bonds on 4 March 2019. The convertible corporate bonds have a term of six years from 4 March 2019 to 3 March 2025, at coupon rates of 0.3% for the first year, 0.8% for the second year, 1.5% for the third year, 2.3% for the fourth year, 3.2% for the fifth year and 4.0% for the sixth year. The conversion of these convertible corporate bonds begins on the first trading day (11 September 2019) after six months upon the completion date of the offering (8 March 2019), until the maturity date.

In accordance with formulas set out in the prospectus of the convertible corporate bonds, the initial conversion price of the convertible corporate bonds is RMB7.45 per share, and the price of the convertible corporate bonds will be adjusted to reflect the dilutive impact of cash dividends and increase in paid-in capital under specified circumstances. As the cash dividend was paid on 15 July 2020, the conversion price of the convertible corporate bonds has been adjusted to RMB6.98 per share. During the conversion period (from 4 March 2019 to 3 March 2025), if the closing price of the Bank's A-shares is lower than 80% of the current conversion price for at least 15 trading days in any 30 consecutive trading days, the Board of Directors of the Bank has the right to propose to lower the conversion price and submit the proposal to the shareholders' meeting for deliberation.

These convertible corporate bonds are subject to conditional redemptions. During their conversion period, if the closing prices of the Bank's A-shares are no less than 130% (inclusive) of the current conversion price for at least 15 trading days in 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible corporate bonds at their par value plus the current accrued interest, upon approval of the relevant regulatory authorities (if required). In addition, when the total amount of the outstanding convertible corporate bonds is less than RMB30 million, the Bank has the right to redeem all outstanding convertible corporate bonds at their par value plus the current accrued interest.

	Note	**Liability**	**Equity**	**Total**
Issued nominal value of convertible corporate bonds		36,859	3,141	40,000
Direct issuance expenses		(74)	(6)	(80)
Balance at the issuance date		36,785	3,135	39,920
Accumulated amortisation as at 1 January 2020		945	—	945
Accumulated conversion amount as at 1 January 2020		—	—	—
Balance as at 1 January 2020		37,730	3,135	40,865
Amotisation durning this period		513	—	513
Conversion amount durning this period	(i)	—	—	—
Balance as at 30 June 2020		38,243	3,135	41,378

Note:

(i) For the six months ended 30 June 2020, convertible corporate bonds of RMB79,000 was converted to 10,933 A-shares(As at 31 December 2019: RMB105,000, 14,533 A-shares).

(Amounts in millions of Renminbi unless otherwise stated)

37 Provisions

	30 June 2020	31 December 2019
Allowance for impairment losses on off balance sheet items	**5,693**	5,646
Litigation provisions	**488**	470
Total	**6,181**	6,116

The movement of off balance sheet allowances for impairment losses is included in the note 29.

Movement of provisions:

	Six months ended 30 June 2020	Year ended 31 December 2019
As at 1 January	**470**	470
Accruals	**19**	9
Reversal in the current year	**(1)**	(1)
Payments	**—**	(8)
As at 30 June/31 December	**488**	470

38 Other liabilities

	30 June 2020	31 December 2019
Dividends payable	**11,696**	—
Continuing involvement liability	**7,045**	6,915
Settlement and clearing accounts	**5,722**	6,896
Advances and deferred expenses	**5,336**	5,305
Payment and collection accounts	**3,455**	7,589
Leasing deposits	**1,240**	1,463
Accrued expenses	**178**	111
Precious metal contracts	**98**	—
Others	**5,528**	5,807
Total	**40,298**	34,086

(Amounts in millions of Renminbi unless otherwise stated)

39 Share capital

	30 June 2020 and 31 December 2019 Number of shares (millions)	Nominal Value
Ordinary shares		
Registered, issued and fully paid:		
A-Share	**34,053**	**34,053**
H-Share	**14,882**	**14,882**
Total	**48,935**	**48,935**

	Note	Six months ended 30 June 2020	Year ended 31 December 2019
As at 1 January		**48,935**	48,935
Convertible bond settlement	36(f)	**—**	—
As at 30 June/31 December		**48,935**	48,935

40 Other equity instruments

	30 June 2020	31 December 2019
Preference shares (Note (i))	**34,955**	34,955
Undated capital bonds (Note (ii))	**39,993**	39,993
Equity of convertible corporate bonds (Note 36(f))	**3,135**	3,135
Total	**78,083**	78,083

(i) Preference shares

Financial instruments in issue	Dividend rate	Issued price (RMB)	Issued number of shares (RMB millions)	Issued nominal value (RMB millions)	Maturity Date	Conversions
Preference shares	3.80% per annum for the first five years after issuance, and re-priced every five years	100	350	35,000	No maturity date	No conversion during the period

35,000 million preference shares of RMB100 each were issued in 2016, with a dividend rate of 3.80% per annum for the first five years from issuance, to no more than 200 qualified investors, pursuant to the approval by its ordinary shareholders' meeting and relevant regulatory authorities.

The carrying amount of preference shares, net of direct issuance expenses, was RMB34,955 millions. All the proceeds received is used to replenish Other Tier-One capital in order to increase the Bank's Tier-One capital adequacy ratio (Note 56). Dividends are non-cumulative and where payable are paid annually. Dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 1.30%.

40 Other equity instruments (Continued)

(i) Preference shares (Continued)

As authorised by the ordinary shareholders' Annual General Meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has redemption option when specified conditions as stipulated in the offering documents of preference shares are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No.56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price of RMB7.07 per share, partially or entirely. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalisation of reserves and new issuances of ordinary shares, subject to terms and formulae provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary shareholders.

These preference shares are classified as equity instruments, and presented as equity in the consolidated interim statement of financial position; and are qualified as Additional Tier-One capital Instruments in accordance with the CBIRC requirements.

(ii) Undated capital bonds

With the approvals by relevant regulatory authorities in China, the Bank issued RMB40 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 9 December 2019, and completed the issuance on 11 December 2019. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first 5 years is 4.20%, resetting every 5 years.

The duration of the Bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date 5 years after the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above Bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bonds are paid by non-cumulative interest. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilize the proceeds from the cancelled distribution to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

These undated capital bonds are classified as equity instruments, and presented as equity in the consolidated statement of financial position; and are qualified as Additional Tier-One Capital Instruments in accordance with the CBIRC requirements.

(Amounts in millions of Renminbi unless otherwise stated)

40 Other equity instruments (Continued)

(ii) Undated capital bonds (Continued)

Interests attributable to equity instruments' holder:

	30 June 2020	31 December 2019
Total equity attribute to equity holders of the parent company	**530,877**	517,311
Equity attribute to ordinary equity holders of the parent company	**452,794**	439,228
Equity attribute to other equity instruments holders of the parent company	**78,083**	78,083
— Profit for the period/Dividend distribution for the period	**—**	1,330
Total equity attribute to non-controlling interests	**15,489**	15,213
Equity attribute to non-controlling interests of ordinary shares	**8,822**	8,546
Equity attribute to non-controlling interests of other equity instruments	**6,667**	6,667

During the six months ended 30 June 2020, no dividends payment was paid to the preference shareholders (As at or for the period ended 31 December 2019: RMB1,330 million).

41 Capital reserves

	30 June 2020	31 December 2019
Share premium	**58,896**	58,896
Other reserves	**81**	81
Total	**58,977**	58,977

42 Other comprehensive income

Other comprehensive income comprises items that will not be reclassified subsequently to profit or loss, such as net changes on the measurement of defined benefit plan (Note 34) and fair value changes on financial investments designated at fair value through other comprehensive income, and items that may be reclassified subsequently to profit or loss, such as fair value changes on financial assets at fair value through other comprehensive income, credit impairment allowance on financial assets at fair value through other comprehensive income and exchange differences on translation.

43 Surplus reserve

	Six months ended 30 June 2020	Year ended 31 December 2019
As at 1 January	**39,009**	34,450
Appropriations	**—**	4,559
As at 30 June/31 December	**39,009**	39,009

Under the relevant PRC Laws, the Bank and the Bank's subsidiaries in Mainland China are required to appropriate 10% of its profit for the year, as determined under regulations issued by the regulatory bodies of the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year to the discretionary surplus reserve upon approval by ordinary shareholders at the Annual General Meeting. The Bank makes its appropriation on an annual basis.

Subject to the approval of ordinary shareholders, statutory surplus reserves may be used for replenishing accumulated losses, if any, and may be converted into share capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before the process.

(Amounts in millions of Renminbi unless otherwise stated)

44 General reserve

	Six months ended 30 June 2020	Year ended 31 December 2019
As at 1 January	**81,535**	74,255
Appropriations	**—**	7,280
As at 30 June/31 December	**81,535**	81,535

Pursuant to relevant Ministry of Finance ("MOF") notices, the Bank and the Group's banking subsidiaries in Mainland China are required to set aside a general reserve to cover potential losses against their assets. The Bank and the Group make its appropriation on an annual basis.

45 Profit appropriations and retained earnings

(a) The proposal of cash dividend of RMB2.39 per ten ordinary shares related to 2019, amounting to RMB11,695 million in total was approved at the Annual General Meeting held on 20 May 2020 and paid on 15 July 2020.

(b) As at 30 June 2020, the retained earnings included the statutory surplus reserves of certain subsidiaries of RMB260 million (31 December 2019: RMB260 million). Such statutory surplus reserves cannot be distributed.

(c) On 27 August 2020, Board of Directors of the Bank concluded a resolution to distribute cash dividend of RMB3.80 per share to preferred shareholders on the basis of the agreed par dividend rate of 3.80%, amounting to about RMB1,330 million. The dividend distribution was accounted for as a non-adjustment event subsequent to the balance sheet date, and was not recognised in the liabilities for the period ended 30 June 2020.

46 Non-controlling interests

As at 30 June 2020, non-controlling interests included ordinary shareholders held by non-controlling interest in subsidiaries and other equity instrument holders' interests. Other equity instrument holders' interest amounted to RMB6,667million (31 December 2019: RMB6,667 million) representing other equity instruments issued by CBI on 11 October 2016 and 6 November 2018, an entity ultimately controlled by the Group. Such instruments are perpetual non-cumulative subordinated additional Tier-One capital securities (the "Capital Securities").

Financial instruments in issue	Issue Date	Nominal Value	First Call Date	Coupon Rate	Payment Frequency
Capital Security	11 October 2016	USD500 million	11 October 2021	4.25% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 3.107% per annum	Semi-annually
Capital Security	6 November 2018	USD500 million	6 November 2023	7.10% per annum for the first five years after issuance, and re-priced every five years to a rate equivalent to the five year US Treasury rate plus 4.151% per annum	Semi-annually

CBI may, at its sole discretion, elect to cancel any payment of coupon, in whole or in part, or redeem Capital Securities in whole on the first call date and any subsequent coupon distribution date. These Capital Securities listed above are classified as other equity instruments.

A distribution payment of RMB199 million was paid to the holders of the Capital Security mentioned above during the six months ended 30 June 2020 (During the six months ended 30 June 2019: RMB271 million).

(Amounts in millions of Renminbi unless otherwise stated)

47 Notes to consolidated interim statement of cash flows

Cash and cash equivalents

	Six months ended 30 June	
	2020	2019
Cash	**6,127**	6,158
Cash equivalents		
— Surplus deposit reserve funds	**47,520**	48,656
— Deposits with banks and non-bank financial institutions due within three months when acquired	**38,136**	49,116
— Placements with and loans to banks and non-bank financial institutions due within three months when acquired	**141,999**	95,838
— Investment securities due within three months when acquired	**36,671**	37,265
Subtotal	**264,326**	230,875
Total	**270,453**	237,033

48 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of loan commitments, credit card commitments, financial guarantees, letters of credit and acceptances.

Loan commitments and credit card commitments represent the undrawn amount of approved loans with signed contracts and credit card limits. Financial guarantees and letters of credit represent guarantees provided by the Group to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects the majority acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by categories are set out below. The amounts disclosed in respect of loan commitments and credit card commitments assume that amounts are fully drawn down. The amounts of guarantees, letters of credit and acceptances represent the maximum potential loss that would be recognised at the reporting date if counterparties failed to perform as contracted.

	30 June 2020	31 December 2019
Contractual amount		
Loan commitments		
— with an original maturity within one year	**13,096**	6,789
— with an original maturity of one year or above	**29,510**	45,422
Subtotal	**42,606**	52,211
Credit card commitments	**572,334**	545,503
Bank acceptances	**465,181**	426,226
Guarantees	**125,699**	147,154
Letters of credit	**117,861**	103,981
Total	**1,323,681**	1,275,075

(Amounts in millions of Renminbi unless otherwise stated)

48 Commitments and contingent liabilities (Continued)

(b) Credit commitments analysed by credit risk weighted amount

	30 June 2020	31 December 2019
Credit risk weighted amount of credit commitments	**400,764**	398,617

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of counterparties and the maturity characteristics. The risk weighting used range from 0% to 150%.

(c) Capital commitments

The Group had the following authorised capital commitments in respect of property, plant and equipment at the reporting date:

	30 June 2020	31 December 2019
For the purchase of property and equipment		
Contracted for	**2,919**	3,457

(d) Outstanding contingencies including litigation and disputes

The Group has assessed and has made provisions for any probable outflow of economic benefits in relation to commitments and contingent liabilities at the reporting date in accordance with its accounting policies including litigation and disputes.

As at 30 June 2020, the Group was involved in certain potential and pending litigation as defendant with gross claims of RMB5,008 million (as at 31 December 2019: RMB2,436 million). Based on the opinion of internal and external legal counsels, the Group had made litigation provisions of RMB19.13 million for the period ended 30 June 2020 (Six months ended 30 June 2019: Nil) against these litigation (Note 37). Such contingencies, including litigation and disputes, will not have material impact on financial position and operations of the Bank.

(e) Bonds redemption obligations

As an underwriting agent of PRC treasury bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of treasury bonds underwritten and sold by the Group, but not yet matured at the reporting date:

	30 June 2020	31 December 2019
Redemption commitment for treasury bonds	**9,989**	11,272

The original maturities of these bonds vary from one to five years. Management of the Group expects the amount of redemption before maturity dates of these bonds will not be material. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

(Amounts in millions of Renminbi unless otherwise stated)

48 Commitments and contingent liabilities (Continued)

(f) Underwriting obligations

As at 30 June 2020 and 31 December 2019, the Group did not have unfulfilled commitment in respect of securities underwriting business.

49 Collateral

(a) Assets pledged

(i) The carrying amount of financial assets pledged as collateral in the Group's ordinary course of businesses, including repurchase agreements and borrowings from central banks, are disclosed as below:

	30 June 2020	31 December 2019
Debt securities	**237,302**	367,616
Discounted bills	**73,474**	76,590
Others	**163**	181
Total	**310,939**	444,387

As at 30 June 2020 and 31 December 2019, the Group's liabilities related to the above collateral were due within 12 months from the effective dates of these agreements and title of these collateral was not transferred to counterparties.

(ii) In addition, as at 30 June 2020, the Group pledged deposits with banks and other financial institutions with carrying amount totalling RMB466 million (31 December 2019: RMB840 million) as collateral for derivative transactions and guarantee funds to exchanges. Title of these pledged assets was not transferred to counterparties.

(b) Collateral accepted

The Group received debt securities and bills as collateral for financial assets held under resale agreements as set out in Note 18. Under the terms of these agreements, the Group could not resell or re-pledge certain parts of these collateral unless in the event of default by the counterparties. As at 30 June 2020, the Group held no collateral that can be resold or re-pledged (31 December 2019: Nil). During the six months ended 30 June 2020, the Group did not resell or re-pledge any of these collateral (Six months ended 30 June 2019: Nil).

(Amounts in millions of Renminbi unless otherwise stated)

50 Transactions on behalf of customers

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals, as well as entrusted provident housing fund mortgage business services. All entrusted loans are made under the instruction or at the direction of these corporations, individuals or provident housing fund centre and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group does not expose to credit risk in relation to these transactions, but acts as an agent to hold and manage these assets and liabilities at the instruction of the entrusting parties and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised on the consolidated statement of financial position. Income received and receivable for providing these services is included in the consolidated statement of profit or loss as fee income.

At the reporting date, the entrusted assets and liabilities were as follows:

	30 June 2020	31 December 2019
Entrusted loans	**399,027**	441,142
Entrusted funds	**399,029**	441,143

(b) Wealth management services

The Group's wealth management services to customers mainly represent sale of wealth management products, including principal guaranteed (Note 56 (c)) and non-principal or interest guaranteed wealth management products (Note 56 (b)), to corporate and personal banking customers.

The funds raised by non-principal guaranteed wealth management products from investors are invested in various investments, including debt securities and money market instruments, credit assets and other debt instruments, equity instruments etc. Credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers. The Group only earns commission which represents the charges on customers in relation to the provision of custodian, sale and management services. Income is recognised in the interim consolidated statement of profit or loss as commission income. The Group has entered into placements transactions at market interest rates with the wealth management products vehicles (Note 56 (b)).

As at 30 June 2020, the total investment of non-principal guaranteed wealth management products managed by the Group that was not included in the Group's consolidated financial statements was disclosed in Note 56 (b).

51 Segment reporting

Measurement of segment assets and liabilities, and segment income and expenses is based on the Group's accounting policies.

Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "External net interest income/expenses".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets and liabilities do not include deferred tax assets and liabilities. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total costs incurred during the year to acquire assets (including both tangible assets and intangible assets) whose estimated useful lives are over one year.

(a) Business segments

The Group has the following main business segments for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and non-financial institutions, as well as conducts investment banking businesses and international businesses. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers and small enterprises. The products and services comprise loans, deposit services, securities agency services, remittance and settlement services and guarantee services.

Treasury business

This segment conducts capital markets operations, inter-bank operations, which, specifically, includes inter-bank money market transactions, repurchase transactions, and investments and trading in debt instruments. Furthermore, treasury business segment also carries out derivatives and forex trading both for the Group and for customers.

(Amounts in millions of Renminbi unless otherwise stated)

51 Segment reporting (Continued)

(a) Business segments (Continued)

Others and unallocated

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis. This segment also manages the Group's liquidity position.

	Six months ended 30 June 2020				
	Corporate Banking	**Personal Banking**	**Treasury Business**	**Others and Unallocated**	**Total**
External net interest income/ (expense)	25,102	37,943	13,830	(11,940)	64,935
Internal net interest income/ (expense)	13,591	(19,200)	(9,733)	15,342	—
Net interest income	38,693	18,743	4,097	3,402	64,935
Net fee and commission income	6,602	19,754	437	(1,437)	25,356
Other net income (Note (i))	1,576	275	9,975	83	11,909
Operating income	46,871	38,772	14,509	2,048	102,200
Operating expenses					
— depreciation and amortisation	(1,251)	(691)	(867)	(260)	(3,069)
— others	(7,977)	(11,311)	(217)	(1,101)	(20,606)
Credit impairment losses	(25,115)	(19,254)	(1,894)	(966)	(47,229)
Impairment losses on other assets	—	—	—	(496)	(496)
Revaluation gain on investment properties	—	—	—	(34)	(34)
Share of loss of associates and joint ventures	—	—	—	(20)	(20)
Profit before tax	12,528	7,516	11,531	(829)	30,746
Income tax					(4,782)
Profit for the period					25,964
Capital expenditure	244	189	171	274	878

	30 June 2020				
	Corporate Banking	**Personal Banking**	**Treasury Business**	**Others and Unallocated**	**Total**
Segment assets	2,348,272	1,266,170	1,699,402	1,720,278	7,034,122
Interest in associates and joint ventures	—	—	112	3,545	3,657
Deferred tax assets					42,837
Total asset					7,080,616
Segment liabilities	3,300,827	1,755,905	843,367	634,140	6,534,239
Deferred tax liabilities					11
Total liabilities					6,534,250
Off-balance sheet credit commitments	735,347	572,334	—	—	1,307,681

(Amounts in millions of Renminbi unless otherwise stated)

51 Segment reporting (Continued)

(a) Business segments (Continued)

Others and unallocated (Continued)

	Six months ended 30 June 2019				
	Corporate Banking	Personal Banking	Treasury Business	Others and Unallocated	Total
External net interest income/ (expense)	25,829	32,919	14,227	(11,463)	61,512
Internal net interest income/ (expense)	13,208	(18,092)	(10,226)	15,110	—
Net interest income	39,037	14,827	4,001	3,647	61,512
Net fee and commission income	6,965	18,593	298	(1,914)	23,942
Other net income (Note (i))	1,164	346	5,964	264	7,738
Operating income	47,166	33,766	10,263	1,997	93,192
Operating expenses					
— depreciation and amortisation	(1,210)	(666)	(833)	(250)	(2,959)
— others	(8,020)	(12,331)	(420)	(943)	(21,714)
Credit impairment losses	(22,059)	(10,411)	(65)	(1,421)	(33,956)
Impairment losses on other assets	—	—	—	(234)	(234)
Revaluation gain on investment properties	—	—	—	6	6
Share of loss of associates and joint ventures	—	—	—	107	107
Profit before tax	15,877	10,358	8,945	(738)	34,442
Income tax					(5,605)
Profit for the period					28,837
Capital expenditure	381	231	266	239	1,117

	31 December 2019				
	Corporate Banking	Personal Banking	Treasury Operations	Others and Unallocated	Total
Segment assets	2,305,553	1,315,035	1,763,646	1,330,432	6,714,666
Interest in associates and joint ventures	—	—	112	3,560	3,672
Deferred tax assets					32,095
Total asset					6,750,433
Segment liabilities	3,274,306	1,876,042	864,191	203,360	6,217,899
Deferred tax liabilities					10
Total liabilities					6,217,909
Off-balance sheet credit commitments	729,572	545,503	—	—	1,275,075

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging gain and other operating income.

51 Segment reporting (Continued)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities. The Bank's principal subsidiaries, CNCB Investment and CIFH are registered and operating in Hong Kong. The other subsidiaries, Lin'an Rural Bank and CFLL are registered in Mainland China.

In presenting information by geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas where Tier-One branches of the Group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo, as well as Lin'an Rural Bank;

— "Pearl River Delta and West Strait" refers to the following areas where Tier-One branches of the Group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou, Xiamen, and Haikou;

— "Bohai Rim" refers to the following areas where Tier-One branches of the Group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang, Jinan and CFLL;

— "Central" region refers to the following areas where Tier-One branches of the Group are located: Hefei, Zhengzhou, Wuhan, Changsha, Taiyuan and Nanchang;

— "Western" region refers to the following areas where Tier-One branches of the Group are located: Chengdu, Chongqing, Xi'an, Kunming, Nanning, Hohhot, Urumqi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

— "Northeastern" region refers to the following areas where Tier-One branches of the Group is located: Shenyang, Changchun and Harbin;

— "Head Office" refers to the headquarter of the Bank and the Credit Card Center; and

— "Overseas" includes all the operations of London branch, CNCB Investment, CIFH and its subsidiaries.

(Amounts in millions of Renminbi unless otherwise stated)

51 Segment reporting (Continued)

(b) Geographical segments (Continued)

	Six months ended 30 June 2020									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	15,468	7,621	718	10,375	9,430	1,199	17,779	2,345	—	64,935
Internal net interest expense/(income)	(1,399)	379	9,426	(2,683)	(3,407)	(191)	(2,053)	(72)	—	—
Net interest income	14,069	8,000	10,144	7,692	6,023	1,008	15,726	2,273	—	64,935
Net fee and commission income	1,565	1,307	2,134	868	753	174	17,890	665	—	25,356
Other net income (Note (i))	459	130	212	139	97	28	10,014	830	—	11,909
Operating income	16,093	9,437	12,490	8,699	6,873	1,210	43,630	3,768	—	102,200
Operating expense										
— depreciation and amortisation	(466)	(383)	(443)	(336)	(400)	(108)	(653)	(280)	—	(3,069)
— others	(3,698)	(2,547)	(3,422)	(2,273)	(1,970)	(455)	(4,778)	(1,463)	—	(20,606)
Credit impairment losses	(5,954)	(3,630)	(6,551)	(4,204)	(9,334)	(1,041)	(16,049)	(466)	—	(47,229)
Impairment losses on other assets	(187)	—	(3)	(291)	(19)	—	—	4	—	(496)
Revaluation gain on investment properties	—	—	—	—	—	—	—	(34)	—	(34)
Share of loss of associates and joint ventures	—	—	—	—	—	—	71	(91)	—	(20)
Profit before tax	5,788	2,877	2,071	1,595	(4,850)	(394)	22,221	1,438	—	30,746
Income tax										(4,782)
Profit for the period										25,964
Capital expenditure	58	44	42	56	96	11	422	149	—	878

	30 June 2020									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,576,207	908,977	1,622,165	701,478	598,030	117,961	2,890,905	349,270	(1,730,871)	7,034,122
Interest in associates and joint ventures	—	—	—	—	—	—	3,096	561	—	3,657
Deferred tax assets										42,837
Total assets										7,080,616
Segment liabilities	1,388,920	845,330	1,531,164	642,593	542,294	112,610	2,885,304	294,595	(1,708,571)	6,534,239
Deferred tax liabilities										11
Total liabilities										6,534,250
Off-balance sheet credit commitments	216,006	133,770	114,862	157,461	88,933	9,862	565,018	21,769	—	1,307,681

(Amounts in millions of Renminbi unless otherwise stated)

51 Segment reporting (Continued)

(b) Geographical segments (Continued)

	Six months ended 30 June 2019									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
External net interest income	12,895	8,129	1,109	8,511	8,697	852	18,384	2,935	—	61,512
Internal net interest expense/(income)	(52)	600	8,952	(1,191)	(2,755)	60	(5,478)	(136)	—	—
Net interest income	12,843	8,729	10,061	7,320	5,942	912	12,906	2,799	—	61,512
Net fee and commission income	1,504	1,220	2,196	914	786	187	16,412	723	—	23,942
Other net income (Note (i))	294	95	180	51	65	20	6,298	735	—	7,738
Operating income	14,641	10,044	12,437	8,285	6,793	1,119	35,616	4,257	—	93,192
Operating expense										
— depreciation and amortisation	(463)	(369)	(453)	(349)	(416)	(113)	(537)	(259)	—	(2,959)
— others	(3,990)	(2,854)	(3,787)	(2,374)	(2,249)	(577)	(4,438)	(1,445)	—	(21,714)
Credit impairment losses	(5,634)	(5,350)	(7,320)	(3,645)	(4,368)	(1,072)	(6,078)	(489)	—	(33,956)
Impairment losses on other assets	(76)	—	(77)	(17)	—	—	—	(64)	—	(234)
Revaluation gain on investment properties	—	—	—	—	—	—	—	6	—	6
Share of loss of associates and joint ventures	—	—	—	—	—	—	100	7	—	107
Profit before tax	4,478	1,471	800	1,900	(240)	(643)	24,663	2,013	—	34,442
Income tax										(5,605)
Profit for the period										28,837
Capital expenditure	66	60	39	29	27	7	784	105	—	1,117

	31 December 2019									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Elimination	Total
Segment assets	1,400,247	810,404	1,440,563	656,139	585,993	106,531	2,730,391	337,807	(1,353,409)	6,714,666
Interest in associates and joint ventures	—	—	—	—	—	—	3,027	645	—	3,672
Deferred tax assets										32,095
Total assets										6,750,433
Segment liabilities	1,021,511	624,170	1,212,606	554,658	457,021	94,420	3,312,559	272,066	(1,331,112)	6,217,899
Deferred tax liabilities										10
Total liabilities										6,217,909
Off-balance sheet credit commitments	204,838	149,346	118,966	151,951	82,348	10,047	538,324	19,255	—	1,275,075

Note:

(i) Other net income consists of net trading gain, net gain from investment securities, net hedging gain and other operating income.

52 Financial risk management

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

— **Credit risk** Credit risk represents the potential loss that may arise from the failure of a customer or counterparty to meet its contractual obligations or commitments to the Group.

— **Market risk** Market risk arises from unfavourable changes in market prices (interest rate, exchange rate, stock price or commodity price) that lead to a loss of on-balance sheet or off-balance sheet business in the Group.

— **Liquidity risk** Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds.

— **Operational risk** Operational risk arises from inappropriate or problematic internal procedures, personnel, IT systems, or external events, such risk includes legal risk, but excluding strategatic risk and reputational risk.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The Group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with relevant policies and procedures.

(a) Credit risk

Credit risk management

Credit risk refers to the risk of loss caused by default of debtor or counterparty. Credit risk also occurs when the Group makes unauthorised or inappropriate loans and advances to customers, financial commitments or investments. The credit risk exposure of the Group mainly arises from the Group's loan and advance to customers, treasury businesses and off-balance sheet items.

The Group has standardised management on the entire credit business process including loan application and its investigation, approval and granting of loan, and monitoring of non-performing loans. Through strictly standardising the credit business process, strengthening the whole process management of pre-loan investigation, credit rating and credit granting, examination and approval, loan review and post-loan monitoring, improving the risk of slow-release of collateral, accelerating the disposal of non-performing loans, and promoting the upgrading and transformation of credit management system, the credit risk management of the Group has been comprehensively improved.

The Group writes off the recoverable financial asset when it cannot reasonably expect to recover all or part of the asset. Signs indicating that the recoverable amount cannot be reasonably expected include: (1) the enforcement has been terminated, and (2) the Group's recovery method is to confiscate and dispose of the collateral, but the expected value of the collateral cannot cover the entire principal and interest.

In addition to the credit risk to the Group caused by credit assets, the Group manages the credit risk for treasury businesses through prudently selecting peers and other financial institutions with comparable credit levels as counterparties, balancing credit risk with returns on investment, comprehensively considering internal and external credit rating information, granting credit hierarchy, and using credit management system to review and adjust credit commitments on a timely basis, etc. In addition, the Group provides off-balance sheet commitment and guarantee businesses to customers, so it is possible for the Group to make payment on behalf of the customer in case of customer's default and bear risks similar to the loan. Therefore, the Group applies similar risk control procedures and policies to such business to reduce the credit risk.

52 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses

Since 1 January 2018, the Group adopts, the "expected credit loss model" on its debt instruments which are classified as financial assets of debt instruments and off balance sheet credit assets measured at amortised cost and at fair value through other comprehensive income in accordance with the provisions of IFRS 9.

For financial assets that are included in the measurement of expected credit losses, the Group evaluates whether the credit risks of related financial assets have increased significantly since the initial recognition. The "three-stage" impairment model is used to measure their allowances for impairment losses respectively to recognise expected credit losses and their movements:

Stage 1: Financial instruments with no significant increase in credit risk since initial recognition will be classified as "stage 1" and the Group continuously monitors their credit risk. The loss allowances of financial instruments in stage 1 is measured based on the expected credit losses in the next 12 months, which represents the proportion of the expected credit losses in the lifetime due to possible default events in the next 12 months.

Stage 2: If there is a significant increase in credit risk from initial recognition, the Group transfers the related financial instruments to stage 2, but it will not be considered as credit-impaired instruments. The expected credit losses of financial instruments in stage 2 is measured based on the lifetime expected credit losses.

Stage 3: If there is a significant impairment in financial instruments, it will be moved to stage 3. The expected credit losses of financial instruments in stage 3 is measured based on the lifetime expected credit losses.

Purchased or originated credit-impaired financial assets refers to financial assets that are credit-impaired at initial recognition. Allowance for impairment losses on these assets are the lifetime expected credit losses.

The Group measures the ECL for financial assets through testing models, which includes expected loss model and discounted cash flows model. The expected loss model method is applicable to assets related to personal client, assets related to corporate client in stage 1 and 2, interbank investments and off-balance sheet credit assets. Discounted cash flows model is applicable to assets related to corporate client in stage 3.

Adopt top-down development approach, the Group has established models including different key economic indicators is established with the new actual default rate of regression model, and use the prediction results and historic default information adjustment coefficient calculation, then realise the provisions for forward-looking adjustment.

Discounted cash flows model is calculated based on the estimation of future cash flows. At each measurement date, the Group projects the future cash inflows of relevant assets under different scenarios to estimate the probability weighted cash flow of each future period. The cash flows are discounted and aggregated to get the present value of the assets' future cash flows.

The Group estimate the ECL in accordance with the IFRS 9, the key judgments and assumptions adopted by the Group are as follows:

52 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(1) Significant increase in credit risk

On each balance sheet date, the Group evaluates whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. When one or more on quantitative or qualitative threshold, or upper limit are triggered, the credit risk of financial instruments would be considered as increased significantly.

By setting quantitative and qualitative threshold, and upper limit, the Group determines whether the credit risk of financial instruments has increased significantly since initial recognition. The judgment mainly includes (1) credit risk of borrowers declining to Grade 15 or below since initial recognition; (2) adverse changes in business, financial or operating conditions of borrowers and in economic conditions; (3) significant increase in other credit risk. For the borrowers who are 30 days (exclusive) to 90 days (inclusive) past due on their contractual payments (including principal and interest), the Group considers that their credit risk has increased significantly and classifies them to stage 2.

After the outbreak of COVID-19, relevant precautionary and control measures have been and continued to be implemented across the country. The Group has formulated and specified relevant identification standards and relief measures for clients affected in accordance with the central and regulatory policies and the requirements regarding credit business management. For clients applying for loan extensions, the Group has evaluated their repayment ability, and allowed deferred interest repayment and adjustment of repayment schedule for those who meet the identification standards to ease their burdens. Moreover, the Group has assessed item by item to determine whether there is a significant increase in credit risk of these clients.

(2) Definition of credit-impaired assets

When credit impairment occurred, the Group defines that the financial asset is in default. In general, a financial asset that is overdue for more than 90 days is considered to be in default.

When one or more events that significant adversely affect the expected future cash flow of a financial asset occurs, the financial asset becomes a credit-impaired financial asset. Evidence of credit-impaired financial assets includes the following observable information:

- The issuer or borrower is in significant financial difficulties
- The borrower is in breach of financial covenant(s) such as default or overdue in repayment of interests or principal etc
- The creditor gives the debtor no concession under any other circumstances, for economic or contractual reasons relating to the debtor's financial difficulties
- It is becoming probably that the borrower will enter bankruptcy or other debt restructuring
- An active market for that financial asset has disappeared because of financial difficulties from issuer or borrower
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The Group's default definition has been consistently applied to the modeling of default probability, default risk exposure and default loss rate in the Group's ECL calculation process.

52 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(3) *Inputs for measurement of expected credit losses*

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred or whether an asset is considered to be credit-impaired. Related definitions are as follows

- The probability of default represents the likelihood of a borrower defaulting on its financial obligations, either over the next 12 months or over the remaining lifetime of the obligation.

- Loss given default ("LGD") represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default and is calculated on a 12-month or lifetime basis.

- Exposure at default ("EAD") is based on the amounts that the Group expects to be owned at the time of default, over the next 12 months or over the remaining lifetime of the obligation.

The Group regularly monitors and reviews the assumptions related to the calculation of ECL, including the PD and the change in the value of collateral over time.

The Group categorises exposures with similar risk characteristics and estimates the PD, LGD, EAD by the exposures respectively. The Group has obtained sufficient information to ensure its statistical reliability. ECL of the Group is measured based on the continuous assessment and follow-up of individuals and their financial status.

(4) *Forward-looking information*

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each asset portfolio.

These economic variables and their associated impact on the probability of default vary by financial instruments. Expert judgment has also been applied in this process, forecasts of these economic variables are estimated by the experts of the Group on a quarterly basis, and the impact of these economic variables on the probability of default and the exposure at default was determined by statistical regression analysis.

In addition to the neutral economic scenario, the Group determine the possible scenarios and their weightings by a combination of statistical analysis and expert judgment. The Group measures expected credit losses as either a probability weighted 12 months expected credit losses (stage 1) or a probability weight lifetime expected credit losses (stage 2 and stage 3). These probability-weighted expected credit losses are determined by running each scenario through the relevant expected credit losses model and multiplying it by the appropriate scenario weighting.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

Measurement of expected credit losses (Continued)

(4) Forward-looking information (Continued)

Macroeconomic scenario and weighting information

The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio.The Group considers internal and external data, experts prediction, and the best estimation of future, to determine the weightings in positive, neutral and negative scenarios. Neutral is defined as the most likely to happen in the future, as compared to other scenarios. Optimistic scenario and pessimistic scenario represents the possible scenario that is better off or worse off scenario compared to neutral scenario respectively.

Due to COVID-19's impact on the macro economy, management reassessed and updated the key economic indicators affecting ECLs and their estimates during the reporting period based on the latest historical data. The economic indicators currently applied in the neutral scenario, including gross profit of industrial enterprises and completed fixed-asset investment, are basically consistent with the forecast of research institutions.

Currently, the weighting of neutral scenario is equal to the sum of the weightings of other scenarios. Following this assessment, the Group measures ECL as a weighted average probability of ECL in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

Considering the portfolios that cannot be modeled by regression, such as those with extremely low default rate or without appropriate internal rating data, the group mainly adopts the expected loss ratio of similar portfolios with established regression models, in order to expand the coverage of the existing ECL model.

(5) Sensitivity information and management overlay

The change of the inputs for measurement of ECL and forward-looking information impact the assessment of significant increase in credit risk and measurement of credit loss.

As at 30 June 2020, assuming a 10% increase in the weighting of the optimistic scenario and a 10% decrease in the weighting of the neutral scenario, the group's credit impairment losses will be reduced by no more than 10% of the current credit impairment losses; assuming a 10% increase in the weighting of the optimistic scenario and a 10% decrease in the weighting of the neutral scenario, the group's credit impairment losses will increase by no more than 10% of the current credit impairment losses.

For latest changes in the external economic situation that are not reflected in the model, the Group has also considered and accordingly increased the loss provision to further enhance the capability to manage and mitigate risk. During the reporting period, adjustment was made by the management based on management overlay in response to COVID-19, which had insignificant effects on ECLs.

Allowance for impairment losses of performing loans and advances to customers consists of ECL from Stage 1 and Stage 2 which is measured based on 12 months ECL and lifetime ECL respectively. Loans and advances to customers in Stage 1 transfer to Stage 2 when there is a significant increase in credit risk. The following table presents the estimated impact as if the ECL of all performing loans and advances to customers are measured based on 12 months ECL, holding all other risk profile constant.

	30 June 2020	31 December 2019
Performing loans and advances to customers		
Allowance of impairment losses assuming performing loans and advances to customers are in Stage 1	**70,184**	59,919
Impact of stage transfers	**5,936**	2,098
Current allowance for impairment losses	**76,120**	62,017

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk at the reporting date without taking into consideration of any collateral held or other credit enhancement is represented by the net balance of each type of financial assets in the consolidated interim statement of financial position after deducting any allowance for impairment losses. A summary of the maximum exposure is as follows:

	30 June 2020				
	Stage 1	Stage 2	Stage 3	Not applicable	Total
Balances with central banks	418,250	—	—	—	418,250
Deposits with bank and non-bank financial institutions	111,131	—	—	—	111,131
Placements with and loans to banks and non-bank financial institutions	220,414	—	—	—	220,414
Derivative financial assets	—	—	—	25,050	25,050
Financial assets held under resale agreements	38,061	—	—	—	38,061
Loans and advances to customers (Note (i))	3,975,664	82,272	25,688	7,045	4,090,669
Financial investments					
— at fair value through profit or loss	—	—	—	303,654	303,654
— at amortised cost	931,339	2,371	10,769	—	944,479
— at fair value through other comprehensive income	739,736	130	15	—	739,881
— designated at fair value through other comprehensive income	—	—	—	3,651	3,651
Other financial assets	29,709	83,157	826	—	113,692
Subtotal	6,464,304	167,930	37,298	339,400	7,008,932
Credit commitments	1,322,456	1,132	93	—	1,323,681
Maximum credit risk exposure	7,786,760	169,062	37,391	339,400	8,332,613

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(i) Maximum credit risk exposure (Continued)

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Not applicable	Total
Balances with central banks	456,813	—	—	—	456,813
Deposits with bank and non-bank financial institutions	121,297	—	—	—	121,297
Placements with and loans to banks and non-bank financial institutions	204,547	—	—	—	204,547
Derivative financial assets	—	—	—	17,117	17,117
Financial assets held under resale agreements	9,954	—	—	—	9,954
Loans and advances to customers	3,798,800	71,130	15,757	6,915	3,892,602
Financial investments					
— at fair value through profit or loss	—	—	—	317,546	317,546
— at amortised cost	907,906	10,458	5,870	—	924,234
— at fair value through other comprehensive income	628,457	123	200	—	628,780
— designated at fair value through other comprehensive income	—	—	—	3,036	3,036
Other financial assets	31,138	2,118	728	—	33,984
Subtotal	6,158,912	83,829	22,555	344,614	6,609,910
Credit commitments	1,266,571	8,316	188	—	1,275,075
Maximum credit risk exposure	7,425,483	92,145	22,743	344,614	7,884,985

According to the quality of assets, the Group classified the credit rating of the financial assets as risk level 1, risk level 2, risk level 3 and default. "Risk level 1" refers to customers who have competitive advantages among local peers with good foundations, outstanding operation results, strong operational and financial strength, and/or good corporate governance structure. "Risk level 2" refers to customers who are in the middle tier among local peers with fair foundations, fair operation results, fair operational and financial strength, and/or fair corporate governance structure. "Risk level 3" refers to customers who are in the lower-tier among local peers, with weak foundations, poor operation results, poor operational and financial strength, and/or deficiency in corporate governance structure. The definition of "Default" is same as the definition of credit-impaired. The credit rating is used for internal risk management.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(i) Maximum credit risk exposure (Continued)

The following table provides an analysis of loans and advances to customers and financial investments that are included in the ECL assessment according to the credit risk level. The book value of the following financial assets is the Group's maximum exposure to credit risk for these assets.

	30 June 2020						
	Risk level 1	**Risk level 2**	**Risk level 3**	**Default**	**Subtotal**	**Allowance for impairment losses**	**Net balance**
Loans and advances to customers (Note(i))							
Stage 1	**3,257,681**	**698,121**	**58,975**	**—**	**4,014,777**	**(39,113)**	**3,975,664**
Stage 2	**1,989**	**27,701**	**89,317**	**—**	**119,007**	**(36,735)**	**82,272**
Stage 3	**—**	**—**	**—**	**85,356**	**85,356**	**(59,668)**	**25,688**
Financial investments at amortised cost							
Stage 1	**853,297**	**82,939**	**—**	**—**	**936,236**	**(4,897)**	**931,339**
Stage 2	**—**	**2,710**	**—**	**—**	**2,710**	**(339)**	**2,371**
Stage 3 (Note(ii))	**—**	**—**	**—**	**18,449**	**18,449**	**(7,680)**	**10,769**
Financial investments at fair value through other comprehensive income							
Stage 1	**681,601**	**58,135**	**—**	**—**	**739,736**	**(1,863)**	**739,736**
Stage 2	**130**	**—**	**—**	**—**	**130**	**(3)**	**130**
Stage 3	**—**	**—**	**—**	**15**	**15**	**(336)**	**15**
Maximum credit risk exposure	**4,794,698**	**869,606**	**148,292**	**103,820**	**5,916,416**	**(150,634)**	**5,767,984**

	31 December 2019						
	Risk level 1	Risk level 2	Risk level 3	Default	Subtotal	Allowance for impairment	Net balance
Loans and advances to customers (Note(i))							
Stage 1	3,143,219	621,373	69,770	—	3,834,362	(35,562)	3,798,800
Stage 2	2,154	11,153	83,911	—	97,218	(26,088)	71,130
Stage 3	—	—	—	69,596	69,596	(53,839)	15,757
Financial investments at amortised cost							
Stage 1	830,071	80,948	501	—	911,520	(3,614)	907,906
Stage 2	—	10,792	—	—	10,792	(334)	10,458
Stage 3 (Note(ii))	—	—	—	8,698	8,698	(2,828)	5,870
Financial investments at fair value through other comprehensive income							
Stage 1	577,688	50,769	—	—	628,457	(1,331)	628,457
Stage 2	—	123	—	—	123	(3)	123
Stage 3	—	—	—	200	200	(297)	200
Maximum credit risk exposure	4,553,132	775,158	154,182	78,494	5,560,966	(123,896)	5,438,701

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(i) Maximum credit risk exposure (Continued)

Note:

(i) Loans and advances to customers include loans and advances to customers measured at fair value through other comprehensive income, and its corresponding impairment are not included include in the "Allowance for impairment losses" as shown in the table.

(ii) Claims in Stage 3 mainly represent investment management products and trust investment plans (Note 50(a)(viii)).

(ii) Measurement of expected credit losses

The following table shows the movement in carrying value of loans and advances to customers in current reporting period:

	Six months ended 30 June 2020		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2020	**3,834,362**	**97,218**	**69,596**
Movements			
Net transfers out from Stage 1	**(73,320)**		
Net transfers in to Stage 2		**28,410**	
Net transfers in to Stage 3			**44,910**
Net increase/(decrease) (Note(i))	**247,949**	**(6,681)**	**(5,618)**
Write-off	**—**	**—**	**(23,530)**
Others (Note(ii))	**5,786**	**60**	**(2)**
As at 30 June 2020	**4,014,777**	**119,007**	**85,356**

	Year ended 31 December 2019		
	Stage 1	Stage 2	Stage 3
As at 1 January 2019	3,457,641	93,676	65,433
Movements			
Net transfers out from Stage 1	(113,799)	—	—
Net transfers in to Stage 2	—	42,217	—
Net transfers in to Stage 3	—	—	71,582
Net increase/(decrease) (Note(i))	486,777	(38,913)	(6,733)
Write-off	—	—	(60,686)
Others (Note(ii))	3,743	238	—
As at 31 December 2019	3,834,362	97,218	69,596

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in carrying value of financial investment in current reporting period:

	Six months ended 30 June 2020		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2020	**1,539,977**	**10,915**	**8,898**
Movements			
Net transfers out from Stage 1	**(1,809)**	**—**	**—**
Net transfers out to Stage 2	**—**	**(8,010)**	**—**
Net transfers in to Stage 3	**—**	**—**	**9,819**
Net increase/(decrease) (Note(i))	**132,780**	**(90)**	**(251)**
Write-off	**—**	**—**	**—**
Others (Note(ii))	**5,024**	**25**	**(2)**
As at 30 June 2020	**1,675,972**	**2,840**	**18,464**

	Year ended 31 December 2019		
	Stage 1	Stage 2	Stage 3
As at 1 January 2019	1,286,574	3,995	1,385
Movements			
Net transfers out from Stage 1	(11,260)	—	—
Net transfers in to Stage 2	—	10,368	—
Net transfers in to Stage 3	—	—	892
Net increase/(decrease) (Note(i))	253,869	(3,516)	6,810
Write-off	—	—	(186)
Others (Note(ii))	10,794	68	(3)
As at 31 December 2019	1,539,977	10,915	8,898

Notes:

(i) Net increase/(decrease) mainly includes changes in carrying amount due to newly originated, purchased or de-recognition excepting for write-off.

(ii) Others include movement of accrued interest, and effect of exchange differences.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in allowance for impairment of loans and advances to customers in current reporting period:

	Six months ended 30 June 2020		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2020	**36,015**	**26,088**	**53,853**
Movements (Note(i))			
Net transfers out from Stage 1	**(2,769)**	**—**	**—**
Net transfers in to Stage 2	**—**	**5,423**	**—**
Net transfers in to Stage 3	**—**	**—**	**31,446**
Net increase/(decrease) (Note(ii))	**3,623**	**(1,690)**	**(2,987)**
Changes in parameters for the period (Note(iii))	**1,362**	**6,894**	**(3,049)**
Write-off	**—**	**—**	**(23,530)**
Others (Notes(iv))	**1,313**	**20**	**3,955**
As at 30 June 2020	**39,544**	**36,735**	**59,688**

The following table shows the movement in allowance for impairment of loans and advances to customers in previous reporting period:

	Year ended 31 December 2019		
	Stage 1	Stage 2	Stage 3
As at 1 January 2019	32,072	22,788	46,372
Movements (Note(i))			
Net transfers out from Stage 1	(2,328)	—	—
Net transfers in to Stage 2	—	6,134	—
Net transfers in to Stage 3	—	—	42,339
Net increase/(decrease) (Note(ii))	5,769	(8,610)	(1,738)
Changes in parameters for the year (Note(iii))	327	5,747	21,153
Write-off	—	—	(60,686)
Others (Note (iv))	175	29	6,413
As at 31 December 2019	36,015	26,088	53,853

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Measurement of expected credit losses (Continued)

The following table shows the movement in allowance for impairment of financial investment in current reporting period:

	Six months ended 30 June 2020		
	Stage 1	**Stage 2**	**Stage 3**
As at 1 January 2020	**4,945**	**337**	**3,125**
Movements (Note(i))			
Net transfers out from Stage 1	**(24)**	**—**	**—**
Net transfers out to Stage 2	**—**	**(215)**	**—**
Net transfers in to Stage 3	**—**	**—**	**3,712**
Net increase/(decrease) (Note(ii))	**421**	**—**	**—**
Changes in parameters for the period (Note(iii))	**1,387**	**220**	**1,178**
Write-off	**—**	**—**	**—**
Others (Notes(iv))	**31**	**—**	**1**
As at 30 June 2020	**6,760**	**342**	**8,016**

	Year ended 31 December 2019		
	Stage 1	Stage 2	Stage 3
As at 1 January 2019	3,407	154	848
Movements (Note(i))			
Net transfers out from Stage 1	(56)	—	—
Net transfers in to Stage 2	—	195	—
Net transfers in to Stage 3	—	—	138
Net increase/(decrease) (Note(ii))	1,610	(12)	2,135
Changes in parameters for the year (Note(iii))	(23)	—	190
Write-off	—	—	(186)
Others (Note (iv))	7	—	—
As at 31 December 2019	4,945	337	3,125

Notes:

(i) Movements in allowance for impairment during the period/year mainly include the impact of stage changes on the measurement of ECLs.

(ii) Net increase/(decrease) mainly includes changes in allowance for impairment due to financial assets newly originated, purchased or derecognised (excluding write-offs).

(iii) Changes in parameters mainly include changes in risk exposures and impacts on ECLs due to changes in PDs and LGDs following regular updates on modelling parameters rather than stages movements.

(iv) Others include allowance changes of accrued interest, recovery of financial assets written off and the effect of exchange rate changes.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers analysed by industry sector:

	30 June 2020			31 December 2019		
	Gross balance	%	Loans and advances secured by collateral	Gross balance	%	Loans and advances secured by collateral
Corporate loans						
— rental and business services	**396,698**	**9.4**	**198,195**	352,732	8.8	190,879
— water, environment and public utility management	**329,375**	**7.8**	**149,408**	268,942	6.7	124,285
— manufacturing	**300,467**	**7.1**	**154,477**	257,675	6.4	114,547
— real estate	**292,052**	**6.9**	**257,371**	288,975	7.2	256,672
— wholesale and retail	**156,139**	**3.7**	**101,452**	146,883	3.7	87,346
— transportation, storage and postal services	**144,334**	**3.4**	**67,796**	152,127	3.8	70,036
— construction	**97,593**	**2.3**	**54,400**	94,701	2.4	44,461
— production and supply of electric power, gas and water	**73,683**	**1.7**	**38,557**	66,215	1.7	47,132
— public management and social organisations	**10,926**	**0.3**	**805**	12,743	0.3	6,733
— others	**287,750**	**6.8**	**123,299**	314,526	7.8	135,663
Subtotal	**2,089,017**	**49.4**	**1,145,760**	1,955,519	48.8	1,077,754
Personal loans	**1,752,078**	**41.5**	**1,191,524**	1,730,814	43.2	1,142,987
Discounted bills	**373,428**	**8.8**	**—**	311,654	7.7	—
Accrued interest	**11,662**	**0.3**	**—**	10,104	0.3	—
Gross loans and advances to customers	**4,226,185**	**100.0**	**2,337,284**	4,008,091	100.0	2,220,741

As at 30 June 2020, the balance of loans for industries greatly affected by the epidemic (transportation, accommodation, catering, culture and tourism industries) accounted for a small proportion of the Bank's total balance of corporate loans.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers analysed by geographical sector:

	30 June 2020			31 December 2019		
	Gross balance	**%**	**Loans and advances secured by collateral**	Gross balance	%	Loans and advances secured by collateral
Bohai Rim (including Head Office)	**1,169,765**	**27.6**	**410,729**	1,224,035	30.5	420,248
Yangtze River Delta	**1,047,791**	**24.8**	**654,236**	920,846	23.0	592,602
Pearl River Delta and West Strait	**649,016**	**15.4**	**486,896**	598,313	14.9	472,112
Central	**590,414**	**14.0**	**342,644**	534,366	13.3	329,238
Western	**496,102**	**11.7**	**298,768**	474,109	11.8	275,498
Northeastern	**85,045**	**2.0**	**57,718**	77,694	1.9	55,767
Outside Mainland China	**176,390**	**4.2**	**86,293**	168,624	4.3	75,276
Accrued interest	**11,662**	**0.3**	**—**	10,104	0.3	—
Total	**4,226,185**	**100.0**	**2,337,284**	4,008,091	100.0	2,220,741

(v) Loans and advances to customers analysed by type of security

	30 June 2020	31 December 2019
Unsecured loans	**1,014,238**	976,047
Guaranteed loans	**489,573**	489,545
Secured loans	**2,337,284**	2,220,741
— loans secured by collateral	**1,896,898**	1,822,815
— pledged loans	**440,386**	397,926
Subtotal	**3,841,095**	3,686,333
Discounted bills	**373,428**	311,654
Accrued interest	**11,662**	10,104
Gross loans and advances to customers	**4,226,185**	4,008,091

(vi) Rescheduled loans and advances to customers

	30 June 2020		31 December 2019	
	Gross balance	**% of total loans and advances**	Gross balance	% of total loans and advances
Rescheduled loans and advances	**30,228**	**0.72%**	22,792	0.57%
— rescheduled loans and advances overdue more than 3 months	**18,328**	**0.43%**	10,800	0.27%

Rescheduled loans and advances are those loans and advances to customers which have been restructured or renegotiated after their credit condition declined. And for the purpose of management, the group reorganises the loans that have been classified as bad under the premise of satisfying credit enhancement, aiming at the deterioration of the borrower's financial position before the loan matures.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(vii) Debt securities analysed by credit rating

The Group adopts a credit rating approach to manage credit risk of its debt instruments portfolio. The ratings are obtained from major rating agencies where the debt instruments are issued. As at 30 June 2020 and 31 December 2019, debt instruments investments analysed by rating are as follows:

	30 June 2020					
	Unrated (Note (i))	**AAA**	**AA**	**A**	**Below A**	**Total**
Debt securities issued by:						
— governments	**514,349**	**249,794**	**13,193**	**2,134**	**11**	**779,481**
— policy banks	**90,572**	**—**	**—**	**6,354**	**—**	**96,926**
— public entities	**25**	**243**	**988**	**4**	**19**	**1,279**
— banks and non-bank financial institutions	**47,327**	**301,655**	**6,234**	**28,089**	**8,325**	**391,630**
— corporates	**55,373**	**27,798**	**8,249**	**10,396**	**9,378**	**111,194**
Investment management products managed by securities companies	**233,302**	**—**	**—**	**—**	**—**	**233,302**
Trust investment plans	**154,892**	**—**	**—**	**—**	**—**	**154,892**
Total	**1,095,840**	**579,490**	**28,664**	**46,977**	**17,733**	**1,768,704**

	31 December 2019					
	Unrated (Note (i))	AAA	AA	A	Below A	Total
Debt securities issued by:						
— governments	490,734	175,718	14,895	1,786	—	683,133
— policy banks	94,455	—	—	6,062	—	100,517
— public entities	—	102	346	—	—	448
— banks and non-bank financial institutions	35,558	321,254	6,151	25,349	9,531	397,843
— corporates	44,596	36,881	11,023	15,593	9,188	117,281
Investment management products managed by securities companies	185,854	—	406	—	17	186,277
Trust investment plans	157,194	—	—	—	—	157,194
Total	1,008,391	533,955	32,821	48,790	18,736	1,642,693

Note:

(i) Unrated debt securities held by the Group are investment management products managed by securities companies, trust investment plans, bonds issued primarily by the Chinese government, policy banks, banks and non-bank financial institutions.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(a) Credit risk (Continued)

(viii) Investment management products managed by securities companies and trust investment plans analysed by type of underlying assets

	30 June 2020	31 December 2019
Investment management products managed by securities companies and trust investment plans		
— credit assets	**244,389**	265,969
— rediscounted bills	**153,363**	80,513
Total	**397,752**	346,482

The Group divides investment management products managed by securities companies and trust investment plans into comprehensive credit management system, to manage its credit risk exposure in a holistic manner. The type of collateral of credit assets includes guarantee, security by collateral, and pledge.

(b) Market risk

Market risk refers to risks that may cause a loss of on-balance sheet and off-balance sheet businesses for the Group due to the adverse movement of market prices, including interest rates, foreign exchange rates, stock prices and commodity prices. The Group has established a market risk management system that formulates procedures to identify, measure, supervision and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and limit management.

Risk and Internal Control Committee of the Group is responsible for approving market risk management policies, establishing appropriate organisational structure and information systems to effectively identify, measure, monitor and control market risks, and ensuring adequate resources to reinforce the market risk management. The Risk Management Department is responsible for independently managing and controlling market risks of the Group, including developing market risk management policies and authorisation limits, providing independent report of market risk to identify, measure and monitor the Group's market risk. Business departments are responsible for the day-to-day management of market risks, including effectively identifying, measuring, controlling market risk factors associated with the relevant operations, so as to ensure the dynamic balance between business development and risk undertaking.

The Group uses sensitivity analysis, foreign exchange exposure and interest rate re-pricing gap analysis as the primary instruments to monitor market risk.

Interest rate risk and currency risk are the major market risks that the Group is exposed to.

Interest rate risk

The Group's interest rate exposures mainly arise from the mismatching of assets and liabilities' re-pricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its re-pricing risk and adjust the ratio of floating and fixed rate exposures, the loan re-pricing cycle, as well as optimise the term structure of its deposits accordingly.

The Group implements various methods, such as duration analysis, sensitivity analysis, stress testing and scenario simulation, to measure, manage and report the interest rate risk on a regular basis.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

The following tables summaries the average interest rates, and the next re-pricing dates or contractual maturity date whichever is earlier for the assets and liabilities as at the end of each reporting date.

	30 June 2020						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.48%	424,377	17,458	406,919	—	—	—
Deposits with banks and non-bank financial institutions	2.52%	111,131	2,044	79,421	29,666	—	—
Placements with and loans to banks and non-bank financial institutions	2.05%	220,414	884	160,069	50,161	9,300	—
Financial assets held under resale agreements	1.48%	38,061	2	38,059	—	—	—
Loans and advances to customers (Note (ii))	5.02%	4,090,669	11,825	1,287,528	2,601,648	187,279	2,389
Financial investments							
— at fair value through profit or loss		303,654	206,379	23,016	46,085	20,062	8,112
— at amortised cost	4.00%	944,479	77	51,727	115,083	468,870	308,722
— at fair value through other comprehensive income	3.43%	739,881	399	95,256	196,954	366,185	81,087
— designated at fair value through other comprehensive income		3,651	3,651	—	—	—	—
Others		204,299	204,299	—	—	—	—
Total assets		7,080,616	447,018	2,141,995	3,039,597	1,051,696	400,310
Liabilities							
Borrowings from central banks	3.34%	126,229	3,009	71,100	52,120	—	—
Deposits from banks and non-bank financial institutions	2.54%	995,685	4,312	792,665	198,708	—	—
Placements from banks and non-bank financial institutions	2.37%	71,980	485	43,620	23,659	4,216	—
Financial liabilities at fair value through profit or loss		5,582	161	743	4,496	112	70
Financial assets sold under repurchase agreements	2.14%	104,942	5	65,177	39,760	—	—
Deposits from customers	2.17%	4,484,465	62,013	3,108,393	581,145	732,886	28
Debt securities issued	3.29%	635,713	2,487	147,306	338,537	77,407	69,976
Lease liability	4.49%	10,490	761	770	2,074	5,717	1,168
Others		99,164	99,164	—	—	—	—
Total liabilities		6,534,250	172,397	4,229,774	1,240,499	820,338	71,242
Interest rate gap		546,366	274,621	(2,087,779)	1,799,098	231,358	329,068

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

	31 December 2019						
	Average interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.55%	463,158	17,743	445,415	—	—	—
Deposits with banks and non-bank financial institutions	2.00%	121,297	1,349	53,285	66,663	—	—
Placements with and loans to banks and non-bank financial institutions	2.82%	204,547	1,218	149,333	39,546	14,450	—
Financial assets held under resale agreements	2.13%	9,954	—	9,954	—	—	—
Loans and advances to customers (Note (ii))	5.08%	3,892,602	9,958	1,629,459	2,073,626	166,427	13,132
Financial investments							
— at fair value through profit or loss		317,546	219,536	49,923	26,845	15,508	5,734
— at amortised cost	4.39%	924,234	112	362,026	78,763	367,340	115,993
— at fair value through other comprehensive income	3.66%	628,780	427	44,913	92,694	348,325	142,421
— designated at fair value through other comprehensive income		3,036	3,036	—	—	—	—
Others		185,279	185,279	—	—	—	—
Total assets		6,750,433	438,658	2,744,308	2,378,137	912,050	277,280
Liabilities							
Borrowing from central banks	3.34%	240,298	—	11,358	228,940	—	—
Deposits from banks and non-bank financial institutions	2.79%	951,122	2,710	702,939	245,473	—	—
Placements from banks and non-bank financial institutions	2.84%	92,539	484	57,432	31,714	2,909	—
Financial liabilities at fair value through profit or loss		847	716	131	—	—	—
Financial assets sold under repurchase agreements	2.39%	111,838	23	80,155	31,660	—	—
Deposits from customers	2.08%	4,073,258	50,932	2,782,857	645,144	593,397	928
Debt securities issued	3.80%	650,274	3,512	71,769	458,267	9,022	107,704
Lease liabilities	4.68%	10,896	790	11	108	5,303	4,684
Others		86,837	86,837	—	—	—	—
Total liabilities		6,217,909	146,004	3,706,652	1,641,306	610,631	113,316
Interest rate gap		532,524	292,654	(962,344)	736,831	301,419	163,964

Notes:

(i) Average interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities during the year.

(ii) For loans and advances to customers, the "Less than three months" category includes overdue amounts (net of allowance for impairment losses) of RMB40,613 million as at 30 June 2020 (as at 31 December 2019: RMB43,791 million).

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis as at 30 June 2020 and 31 December 2019.

	30 June 2020		31 December 2019	
	Net interest Income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(7,385)**	**(4,053)**	(4,097)	(3,407)
-100 basis points	**7,385**	**4,053**	4,097	3,407

This sensitivity analysis is based on a static interest rate risk profile of the Group's non-derivative assets and liabilities and certain assumptions as discussed below. The analysis measures only the impact of changes in interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's non-derivative assets and liabilities within the one-year period. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or mature within the three months bracket, and the after three months but within one year bracket are both reprice or mature at the beginning of the respective periods, (ii) it does not reflect the potential impact of unparalleled yield curve movements, and (iii) there are no other changes to the portfolio, all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income and other comprehensive income resulted from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Currency risk

Currency risk arises from the potential change of exchange rates that cause a loss to the on-balance sheet and off-balance sheet business of the Group. The Group measures its currency risk with foreign currency exposures, and manages its currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currency, as well as using derivative financial instruments, mainly foreign exchange swaps, to manage its exposure.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The exposures at the reporting date were as follows:

	30 June 2020				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	413,342	10,245	557	233	424,377
Deposits with banks and non-bank financial institutions	88,981	14,726	3,173	4,251	111,131
Placements with and loans to banks and non-bank financial institutions	112,216	94,315	12,613	1,270	220,414
Financial assets held under resale agreements	37,996	65	—	—	38,061
Loans and advances to customers	3,844,906	124,842	108,196	12,725	4,090,669
Financial investments					
— at fair value through profit or loss	290,554	9,748	3,352	—	303,654
— at amortised cost	942,914	1,515	—	50	944,479
— at fair value through other comprehensive income	639,174	74,772	16,895	9,040	739,881
— designated at fair value through other comprehensive income	3,210	176	265	—	3,651
Others	194,638	4,924	4,736	1	204,299
Total assets	6,567,931	335,328	149,787	27,570	7,080,616
Liabilities					
Borrowings from central banks	126,229	—	—	—	126,229
Deposits from banks and non-bank financial institutions	976,907	15,915	2,688	175	995,685
Placements from banks and non-bank financial institutions	49,332	21,682	311	655	71,980
Financial liabilities at fair value through profit or loss	5,389	192	1	—	5,582
Financial assets sold under repurchase agreements	104,942	—	—	—	104,942
Deposits from customers	4,125,822	191,788	147,118	19,737	4,484,465
Debt securities issued	619,239	16,474	—	—	635,713
Lease liability	9,766	20	568	136	10,490
Others	83,040	7,725	7,483	916	99,164
Total liabilities	6,100,666	253,796	158,169	21,619	6,534,250
Net on-balance sheet position	467,265	81,532	(8,382)	5,951	546,366
Credit commitments	1,226,528	76,454	12,546	8,153	1,323,681
Derivatives (Note (i))	3,661	(38,621)	48,341	(5,870)	7,511

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and balances with central banks	445,569	16,679	694	216	463,158
Deposits with banks and non-bank financial institutions	96,334	16,579	2,598	5,786	121,297
Placements with and loans to banks and non-bank financial institutions	123,725	55,649	20,516	4,657	204,547
Financial assets held under resale agreements	9,954	—	—	—	9,954
Loans and advances to customers	3,655,998	112,700	105,842	18,062	3,892,602
Financial investments					
— at fair value through profit or loss	293,217	20,862	3,467	—	317,546
— at amortised cost	922,228	2,006	—	—	924,234
— at fair value through other comprehensive income	538,355	64,153	17,903	8,369	628,780
— designated at fair value through other comprehensive income	2,557	178	301	—	3,036
Others	175,304	4,679	4,550	746	185,279
Total assets	6,263,241	293,485	155,871	37,836	6,750,433
Liabilities					
Borrowings from central banks	240,298	—	—	—	240,298
Deposits from banks and non-bank financial institutions	942,867	7,842	331	82	951,122
Placements from banks and non-bank financial institutions	75,315	16,858	216	150	92,539
Financial liabilities at fair value through profit or loss	715	132	—	—	847
Financial assets sold under repurchase agreements	111,838	—	—	—	111,838
Deposits from customers	3,700,005	200,762	154,291	18,200	4,073,258
Debt securities issued	628,885	21,389	—	—	650,274
Lease liabilities	10,183	4	559	150	10,896
Others	80,992	1,724	3,855	266	86,837
Total liabilities	5,791,098	248,711	159,252	18,848	6,217,909
Net on-balance sheet position	472,143	44,774	(3,381)	18,988	532,524
Credit commitments	1,169,606	84,385	13,294	7,790	1,275,075
Derivatives (Note (i))	(9,194)	(27,398)	45,836	(7,770)	1,474

Note:

(i) Derivatives represent the net notional amount of currency derivatives, including undelivered foreign exchange spot, foreign exchange forward, foreign exchange swap and currency option.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(b) Market risk (Continued)

Currency risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's profit or loss and other comprehensive income. The following table sets forth, as at 30 June 2020 and 31 December 2019, the results of the Group's foreign exchange rate sensitivity analysis.

	30 June 2020		31 December 2019	
	Profit before tax	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**4,122**	**26**	3,529	23
5% depreciation	**(4,122)**	**(26)**	(3,529)	(23)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain assumptions as follows: (i) the foreign exchange sensitivity is the gain and loss recognised as a result of 500 basis point fluctuation in the foreign currency exchange rates against RMB at the reporting date, (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously and does not take into account the correlation effect of changes in different foreign currencies, and (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, foreign exchange derivative instruments, and; all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's profit and other comprehensive income resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis. Precious metal is included in foreign currency for the purpose of this sensitivity analysis.

(c) Liquidity risk

Liquidity risk arises when the Group, in meeting the demand of liabilities due and other payment obligations as well as the needs of business expansion, is unable to sufficiently, timely or cost-effectively acquire funds. The Group's liquidity risk arises mainly from the mismatch of assets to liabilities and customers may concentrate their withdrawals.

The Group has implemented overall liquidity risk management on the entity level. The headquarters has the responsibility for developing the entire Group's liquidity risk policies, strategies, and implements centralised management of liquidity risk on the entity level. The domestic and foreign affiliates develop their own liquidity policies and procedures within the Group's liquidity strategy management framework, based on the requirements of relevant regulatory bodies.

The Group manages liquidity risk by setting various indicators and operational limits according to the overall position of the Group's assets and liabilities, with referencing to market condition. The Group holds assets with high liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The tools that the Group uses to measure and monitor liquidity risk mainly include:

— Liquidity gap analysis

— Liquidity indicators (including but not limited to regulated and internal managed indicators, such as liquidity coverage ratio, loan-to-deposit ratio, liquidity ratio, liquidity gap rate, excess reserves rate) monitoring

— Scenario analysis

— Stress testing

On this basis, the Group establishes regular reporting mechanisms for liquidity risk to report the latest situation of liquidity risk to the senior management on a timely basis.

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Analysis of the remaining contractual maturity of assets and liabilities

	30 June 2020						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Assets							
Cash and balances with central banks	53,795	964	2,380	—	—	367,238	424,377
Deposits with banks and non-bank financial institutions	33,602	47,489	30,040	—	—	—	111,131
Placements with and loans to banks and non-bank financial institutions	—	161,417	49,489	9,508	—	—	220,414
Financial assets held under resale agreements	—	38,061	—	—	—	—	38,061
Loans and advances to customers (Note (ii))	37,927	592,291	1,117,073	697,085	1,570,863	75,430	4,090,669
Financial investments							
— at fair value through profit or loss	67	22,965	46,153	20,545	8,297	205,627	303,654
— at amortised cost	—	49,639	113,489	467,922	307,940	5,489	944,479
— at fair value through other comprehensive income	—	81,145	200,998	376,647	81,091	—	739,881
— designated at fair value through other comprehensive income	311	—	—	—	—	3,340	3,651
Others	73,634	10,508	15,678	51,299	65	53,115	204,299
Total assets	199,336	1,004,479	1,575,300	1,623,006	1,968,256	710,239	7,080,616
Liabilities							
Borrowings from central banks	—	74,109	52,120	—	—	—	126,229
Deposits from banks and non-bank financial institutions	533,914	262,155	199,616	—	—	—	995,685
Placements from banks and non-bank financial institutions	—	44,105	24,041	3,110	724	—	71,980
Financial liabilities at fair value through profit or loss	161	743	4,496	112	70	—	5,582
Financial assets sold under repurchase agreements	—	65,182	39,760	—	—	—	104,942
Deposits from customers	2,175,890	994,347	581,308	732,892	28	—	4,484,465
Debt securities issued	—	147,306	338,722	77,812	71,873	—	635,713
Lease liability	100	831	2,250	6,146	1,163	—	10,490
Others	61,470	7,768	7,137	12,557	977	9,255	99,164
Total liabilities	2,771,535	1,596,546	1,249,450	832,629	74,835	9,255	6,534,250
(Short)/long position	(2,572,199)	(592,067)	325,850	790,377	1,893,421	700,984	546,366

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Analysis of the remaining contractual maturity of assets and liabilities (Continued)

	31 December 2019						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Assets							
Cash and balances with central banks	104,114	—	3,080	—	—	355,964	463,158
Deposits with banks and non-bank financial institutions	39,476	14,100	67,721	—	—	—	121,297
Placements with and loans to banks and non-bank financial institutions	—	150,131	39,858	14,558	—	—	204,547
Financial assets held under resale agreements	—	9,954	—	—	—	—	9,954
Loans and advances to customers (Note (ii))	27,210	695,697	928,062	691,475	1,478,383	71,775	3,892,602
Financial investments							
— at fair value through profit or loss	819	49,394	27,738	15,979	5,754	217,862	317,546
— at amortised cost	8,714	69,541	160,329	470,798	214,740	112	924,234
— at fair value through other comprehensive income	134	34,824	94,189	357,203	142,426	4	628,780
— designated at fair value through other comprehensive income	—	—	—	—	—	3,036	3,036
Others	74,094	11,457	10,812	36,027	84	52,805	185,279
Total assets	254,561	1,035,098	1,331,789	1,586,040	1,841,387	701,558	6,750,433
Liabilities							
Borrowings from central banks	—	11,358	228,940	—	—	—	240,298
Deposits from banks and non-bank financial institutions	402,889	302,059	246,174	—	—	—	951,122
Placements from banks and non-bank financial institutions	—	57,594	32,010	2,935	—	—	92,539
Financial liabilities at fair value through profit or loss	715	—	—	—	—	132	847
Financial assets sold under repurchase agreements	—	80,177	31,661	—	—	—	111,838
Deposits from customers	2,010,162	828,467	639,909	593,583	1,137	—	4,073,258
Debt securities issued	—	71,846	460,610	9,071	108,747	—	650,274
Lease liabilities	168	784	2,225	6,562	1,157	—	10,896
Others	43,902	6,785	6,893	13,493	6,927	8,837	86,837
Total liabilities	2,457,836	1,359,070	1,648,422	625,644	117,968	8,969	6,217,909
(Short)/long position	(2,203,275)	(323,972)	(316,633)	960,396	1,723,419	692,589	532,524

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flow.

	30 June 2020						
	Repayable on demand	Within 3 months	Three months and one year	One and five years	More than five years	Undated (Note(i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	53,795	2,317	6,641	—	—	367,238	429,991
Deposits with banks and non-bank financial institutions	33,602	49,947	33,876	—	—	—	117,425
Placements with and loans to banks and non-bank financial institutions	—	162,021	52,756	10,021	—	—	224,798
Financial assets held under resale agreements	—	38,063	—	—	—	—	38,063
Loans and advances to customers (Note (ii))	37,927	636,373	1,212,310	996,536	2,168,894	80,582	5,132,622
Financial investments							
— at fair value through profit or loss	67	23,862	48,919	23,714	17,149	206,130	319,841
— at amortised cost	—	61,249	138,075	556,964	380,037	8,826	1,145,151
— at fair value through other comprehensive income	—	86,501	214,680	415,206	95,219	2	811,608
— designated at fair value through other comprehensive income	311	—	—	—	—	3,342	3,653
Others	73,634	10,508	15,678	51,299	65	53,115	204,299
Total assets	199,336	1,070,841	1,722,935	2,053,740	2,661,364	719,235	8,427,451
Liabilities							
Borrowings from central banks	—	74,109	56,185	—	—	—	130,294
Deposits from banks and non-bank financial institutions	533,914	263,895	209,414	—	—	—	1,007,223
Placements from banks and non-bank financial institutions	—	44,108	24,041	3,110	724	—	71,983
Financial liabilities at fair value through profit or loss	161	743	4,496	112	70	—	5,582
Financial assets sold under repurchase agreements	—	65,182	40,552	—	—	—	105,734
Deposits from customers	2,175,890	1,023,927	615,199	821,578	34	—	4,636,628
Debt securities issued	—	147,306	361,164	96,177	81,852	—	686,499
Lease liability	100	924	2,531	6,646	1,276	—	11,477
Others	61,470	7,768	7,137	12,557	977	9,255	99,164
Total liabilities	2,771,535	1,627,962	1,320,719	940,180	84,933	9,255	6,754,584
(Short)/long position	(2,572,199)	(557,121)	402,216	1,113,560	2,576,431	709,980	1,672,867
Derivative cash flow							
Derivative financial instrument settled on a net basis	—	23	76	117	1	—	217
Derivative financial instruments settled on a gross basis							
— cash inflow	—	482,910	495,797	38,865	2	—	1,017,574
— cash outflow	—	(476,256)	(490,206)	(38,851)	(2)	—	(1,005,315)

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(c) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flow (Continued).

	31 December 2019						
	Repayable on demand	Within 3 months	Between three months and one year	Between one and five years	More than five years	Undated (Note(i))	Total
Non-derivative cash flow							
Assets							
Cash and balances with central banks	104,114	1,407	7,624	—	—	355,964	469,109
Deposits with banks and non-bank financial institutions	39,476	14,168	69,201	—	—	—	122,845
Placements with and loans to banks and non-bank financial institutions	—	155,306	40,902	15,580	—	—	211,788
Financial assets held under resale agreements	—	10,002	—	—	—	—	10,002
Loans and advances to customers (Notes(ii))	27,210	735,040	1,025,345	1,000,430	2,084,351	77,504	4,949,880
Financial investments							
— at fair value through profit or loss	819	60,220	28,771	16,380	5,754	217,862	329,806
— at amortised cost	8,714	78,104	191,311	563,757	224,657	118	1,066,661
— at fair value through other comprehensive income	134	38,162	109,737	395,348	156,066	4	699,451
— designated at fair value through other comprehensive income	—	—	—	—	—	3,036	3,036
Others	74,094	11,457	10,812	36,027	84	52,805	185,279
Total assets	254,561	1,103,866	1,483,703	2,027,522	2,470,912	707,293	8,047,857
Liabilities							
Borrowings from central banks	—	11,358	236,569	—	—	—	247,927
Deposits from banks and non-bank financial institutions	402,889	487,768	324,097	84,721	—	—	1,299,475
Placements from banks and non-bank financial institutions	—	57,594	32,039	2,935	—	—	92,568
Financial liabilities at fair value through profit or loss	715	—	—	—	—	132	847
Financial assets sold under repurchase agreements	—	80,728	32,077	—	—	—	112,805
Deposits from customers	2,010,162	842,424	673,137	668,153	1,336	—	4,195,212
Debt securities issued	—	78,869	472,403	119,387	108,747	—	779,406
Lease liabilities	168	787	2,285	7,341	1,603	—	12,184
Others	43,902	6,785	6,895	13,493	6,927	8,837	86,839
Total liabilities	2,457,836	1,566,313	1,779,502	896,030	118,613	8,969	6,827,263
(Short)/long position	(2,203,275)	(462,447)	(295,799)	1,131,492	2,352,299	698,324	1,220,594
Derivative cash flow							
Derivative financial instrument settled on a net basis	—	32	146	77	(12)	—	243
Derivative financial instruments settled on a gross basis							
— cash inflow	—	748,197	568,296	58,470	—	73	1,375,036
— cash outflow	—	(395,774)	(563,552)	(58,322)	—	—	(1,017,648)

(Amounts in millions of Renminbi unless otherwise stated)

52 Financial risk management (Continued)

(c) Liquidity risk (Continued)

Credit Commitments include bank acceptances, credit card commitments, guarantees, loan commitments and letters of credit. The tables below summarise the amounts of credit commitments by remaining contractual maturity.

	30 June 2020			
	Less than 1 year	**1-5 years**	**Over 5 years**	**Total**
Bank Acceptances	**465,181**	**—**	**—**	**465,181**
Credit Card Commitments	**565,755**	**6,544**	**35**	**572,334**
Guarantees	**74,890**	**49,602**	**1,207**	**125,699**
Loan Commitments	**16,362**	**14,523**	**11,721**	**42,606**
Letters of Credit	**117,506**	**355**	**—**	**117,861**
Total	**1,239,694**	**71,024**	**12,963**	**1,323,681**

	31 December 2019			
	Less than 1 year	1-5 years	Over 5 years	Total
Bank Acceptances	426,226	—	—	426,226
Credit Card Commitments	538,861	6,387	255	545,503
Guarantees	96,576	49,086	1,492	147,154
Loan Commitments	16,448	18,779	16,984	52,211
Letters of Credit	101,948	2,033	—	103,981
Total	1,180,059	76,285	18,731	1,275,075

Notes:

(i) For cash and balances with central banks, the undated period amount represented statutory deposit reserve funds and fiscal deposits maintained with the PBOC. For loans and advances to customers and investments, the undated period amount represented the balances being credit-impaired or overdue for more than one month. Equity investments were also reported under undated period.

(ii) The balances of loans and advances to customers which were overdue within one month but not impaired are included in repayable on demand.

52 Financial risk management (Continued)

(d) Operational risk

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, personnel, IT systems, or external events, including legal risk, but excluding strategy risk and reputational risk.

The Group manages operational risk through a control-based environment by establishing a sound mechanism of operational risk management in order to identify, assess, monitor, control, mitigate and report operational risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. Key controls include:

— by establishing a matrix authorisation management system of the whole group, carrying out the annual unified authorisation work, and strictly restricting the institutions and personnel at all levels to carry out business activities within the scope of authority granted, the management requirements of prohibiting the overstepping of authority to engage in business activities were further clarified at the institutional level;

— through consistent legal responsibility framework, taking strict disciplinary actions against non-compliance in order to ensure accountability;

— promoting operational risk management culture throughout the organisation; building a team of operational risk management professionals. Through formal training and performance appraisal system in raising risk management awareness;

— strengthening cash and account management in accordance with the relevant policies and procedures, intensifying the monitoring of suspicious transactions. Ensure our staff are well-equipped with the necessary knowledge and basic skills on anti-money laundering through continuous training;

— backup systems and disaster recovery plans covering all the major activities, especially backoffice operations in order to minimise any unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain disruptive events.

In addition to the above, the Group improves its operational risk management information systems on an ongoing basis to efficiently identify, evaluate, monitor, control and report its level of operational risk. The Group’s management information system has the functionalities of recording and capturing lost data and events of operational risk to further support operational risk control and self-assessment, as well as monitoring of key risk indicators.

53 Capital Adequacy Ratio

Capital adequacy ratio reflects the Group's operational and risk management capability and it is the core of capital management. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio.

The Group's management monitors its capital adequacy ratio regularly based on regulations promulgated by the CBIRC. The Group and the Bank respectively submit the required information to the CBIRC semi-annually and quarterly.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the requirements of the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) issued by the CBIRC in 2012 and other relevant regulations. Since 1 January 2019, the Group has calculated default risk assets of counterparties in the trading of derivatives based on the Rules for the Measurement of Default Risk Assets of Counterparties in the Trading of Derivatives issued by the CBIRC in 2018. These calculation bases may be different from those adopted internationally and by other countries.

Under the "Regulation Governing Capital of Commercial Banks (provisional)", The Systematic important bank is required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50%and 11.50%, respectively, by the end of 2018. The Non-systematic important bank is required to meet the minimum core Tier-One capital adequacy ratio, Tier-One capital adequacy ratio and capital adequacy ratio of 7.50%, 8.50% and 10.50%, respectively, by the end of 2018. In addition, overseas subsidiaries and branches are directly regulated by the respective local banking regulators and the requirements of capital adequacy ratios differ by country. During the period, the Group has complied in full with all its externally imposed capital requirements.

The capital adequacy ratios calculated in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". According to the requirements, for credit risk, the capital requirement was measured using the weighting method. The market risk was measured by adopting the standardised approach and the operational risk was measured by using the basic indicator approach.

(Amounts in millions of Renminbi unless otherwise stated)

53 Capital Adequacy Ratio (Continued)

Relevant requirements promulgated by the CBIRC are listed as below.

	30 June 2020	31 December 2019
Core Tier-One capital adequacy ratio	**8.80%**	8.69%
Tier-One capital adequacy ratio	**10.29%**	10.20%
Capital adequacy ratio	**12.57%**	12.44%
Components of capital base		
Core Tier-One capital:		
Share capital	**48,935**	48,935
Capital reserve	**58,977**	58,977
Other comprehensive income and qualified portion of other equity instruments	**10,216**	10,496
Surplus reserve	**39,009**	39,009
General reserve	**81,535**	81,535
Retained earnings	**217,257**	203,411
Qualified portion of non-controlling interests	**5,167**	4,627
Total core Tier-One capital	**461,096**	446,990
Core Tier-One capital deductions:		
Goodwill (net of related deferred tax liability)	**(931)**	(912)
Other intangible assets other than land use right (net of related deferred tax liability)	**(1,799)**	(1,875)
Core Tier-One Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope	**—**	—
Net core Tier-One capital	**458,366**	444,203
Other Tier-One capital (Note (i))	**77,783**	77,555
Tier-One capital	**536,149**	521,758
Tier-Two capital:		
Qualified portion of Tier-Two capital instruments issued and share premium	**58,764**	63,151
Surplus allowance for loan impairment	**58,520**	49,753
Qualified portion of non-controlling interests	**1,348**	1,235
Net capital base	**654,781**	635,897
Total risk-weighted assets	**5,208,268**	5,113,585

Note:

(i) As at 30 June 2020, the Group's other Tier-One capital included other equity instruments issued by the Bank (Note 40) and non-controlling interests (Note 46).

54 Fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date. This level includes listed equity instruments and debt instruments on exchanges and exchange-traded derivatives.

Level 2: Inputs other than quoted prices included within Level 1 are observable for assets or liabilities, either directly or indirectly. A majority of the debt securities classified as level 2 are Renminbi bonds. The fair values of these bonds are determined based on the evaluation results provided by China Central Depository & Clearing Corporate Limited. This level also includes partial bills rediscounting and forfeiting in loans and advances, partial Investment management products managed by securities companies and Trust investment plans, as well as a majority of over-the-counter derivative contracts. Foreign exchange forward and swaps, Interest rate swap, and foreign exchange options use discount cash flow evaluation method and the evaluation model of which includes Forward Pricing Model, Swap Model and Option Pricing Model. Bills rediscounting, forfeiting, Investment management products managed by securities companies and Trust investment plans use discount cash flow evaluation method to estimate fair value. Input parameters are sourced from the Open market such as Bloomberg and Reuters.

Level 3: Inputs for assets or liabilities are based on unobservable parameters. This level includes equity instruments and debt instruments with one or more than one significant unobservable parameters. Management determine the fair value through inquiring from counterparties or using the valuation techniques. The model incorporate unobservable parameters such as discount rate and market price volatilities.

The fair value of the Group's financial assets and financial liabilities are determined as follows:

— If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

— If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there were no available observable current market transactions prices for similar instruments, quoted prices from counterparty is used for the valuation, and management performs analysis on these prices. Discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for derivatives other than options, and option pricing models are used for option derivatives.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Market Department, the Financial Institution Department, and the Investment Bank Department are responsible for the fair valuation of financial assets and financial liabilities. The Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items according to the result generated from the valuation process and accounting policies. The Finance and Accounting Department prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

For the period ended 30 June 2020, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

(Amounts in millions of Renminbi unless otherwise stated)

54 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value

Financial assets and liabilities not carried at fair value of the Group include Cash and balances with central banks, Deposits with banks and non-bank financial institutions, Placements with and loans to banks and non-bank financial institutions, Financial assets held under resale agreements, Loans and advances to customers at amortised cost, Financial investments at amortised cost, Held-to-maturity investments, Investments classified as receivables, Borrowings from central banks, Deposits from banks and non-bank financial institutions, Placements from banks and non-bank financial institutions, Financial assets sold under repurchase agreements, Deposits from customers and Debt securities issued.

Except for the items shown in the tables below, the maturity dates of aforesaid financial assets and liabilities are within a year or are mainly floating interest rates, as a result, their carrying amounts are approximately equal to their fair value.

	Carrying values		**Fair values**	
	30 June 2020	31 December 2019	**30 June 2020**	31 December 2019
Financial assets:				
Financial investments at amortised cost				
— at amortised cost	**944,479**	924,234	**945,577**	938,830
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	**177**	2,863	**177**	2,789
— debt securities issued	**51,142**	81,196	**50,931**	80,619
— subordinated bonds issued	**75,444**	89,555	**77,287**	89,937
— certificates of interbank deposit issued	**470,600**	438,830	**464,144**	431,706
— convertible corporate bonds issued	**38,350**	37,830	**38,243**	37,730

(Amounts in millions of Renminbi unless otherwise stated)

54 Fair value (Continued)

(a) Financial assets and financial liabilities not measured at fair value (Continued)

Fair value of financial assets and liabilities above at fair value hierarchy is as follows:

	30 June 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial investments				
— at amortised cost	**1,423**	**695,531**	**248,623**	**945,577**
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	**—**	**—**	**177**	**177**
— debt securities issued	**—**	**50,931**	**—**	**50,931**
— subordinated bonds issued	**3,735**	**73,552**	**—**	**77,287**
— certificates of interbank deposit issued	**—**	**464,144**	**—**	**464,144**
— convertible corporate bonds issued	**—**	**38,243**	**—**	**38,243**

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial investment				
— at amortised cost	2,063	663,508	273,259	938,830
Financial liabilities:				
Debt securities issued				
— certificates of deposit (not for trading purpose) issued	—	2,789	—	2,789
— debt securities issued	—	80,619	—	80,619
— subordinated bonds issued	5,789	84,148	—	89,937
— certificates of interbank deposit issued	—	431,706	—	431,706
— convertible corporate bonds	—	37,730	—	37,730

(Amounts in millions of Renminbi unless otherwise stated)

54 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 30 June 2020				
Recurring fair value measurements				
Assets				
Loans and advances to customers at fair value through other comprehensive income				
— loans	—	3,288	—	3,288
— discounted bills	—	371,524	—	371,524
Loans and advances to customers at fair value through current profit or loss				
— personal loans	—	—	7,045	7,045
Financial investments at fair value through profit or loss				
— debt securities	4,388	44,033	3,394	51,815
— investment funds	30	192,366	11,327	203,723
— certificates of deposit	—	32,511	—	32,511
— wealth management products	—	5,216	663	5,879
— equity instruments	1,866	—	7,842	9,708
— trust investment plans	—	—	18	18
Financial investments at fair value through other comprehensive income				
— debt securities	90,463	506,260	12,617	609,340
— certificates of deposit	470	3,796	—	4,266
— investments management products managed by securities companies	—	119,742	—	119,742
Financial investments designated at fair value through other comprehensive income				
— equity instruments	127	311	3,213	3,651
Derivative financial assets				
— interest rate derivatives	—	14,206	—	14,206
— currency derivatives	11	10,141	—	10,152
— precious metals derivatives	—	691	—	691
— credit derivatives	1	—	—	1
Total financial assets measured at fair value	97,356	1,304,085	46,119	1,447,560
Liabilities				
Financial liabilities at fair value through profit or loss				
— short position in debt securities	337	14	—	351
— structured products	—	—	5,231	5,231
Derivative financial liabilities				
— interest rate derivatives	2	13,927	—	13,929
— currency derivatives	25	9,663	—	9,688
— precious metals derivatives	—	1,016	—	1,016
Total financial liabilities measured at fair value	364	24,620	5,231	30,215

(Amounts in millions of Renminbi unless otherwise stated)

54 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

	Level 1 (Note (i))	Level 2 (Note (i))	Level 3 (Note (ii))	Total
As at 31 December 2019				
Recurring fair value measurements				
Assets				
Loans and advances to customers at fair value through other comprehensive income				
— loans	—	922	—	922
— discounted bills	—	307,867	—	307,867
Loans and advances to customers at fair value through current profit or loss				
— personal loans	—	—	6,915	6,915
Financial investments at fair value through profit or loss				
— debt securities	2,086	30,417	10,367	42,870
— investment funds	9,962	196,224	12,305	218,491
— certificates of deposit	—	46,792	—	46,792
— wealth management products	—	133	819	952
— equity instruments	1,185	—	7,239	8,424
— trust investment plans	17	—	—	17
Financial investments at fair value through other comprehensive income				
— debt securities	86,557	516,989	13,248	616,794
— certificates of deposit	361	4,505	—	4,866
Financial investments designated at fair value through other comprehensive income				
— equity instruments	205	123	2,708	3,036
Derivative financial assets				
— interest rate derivatives	2	5,201	—	5,203
— currency derivatives	—	11,700	—	11,700
— precious metals derivatives	—	214	—	214
Total financial assets measured at fair value	100,375	1,121,087	53,601	1,275,063
Liabilities				
Financial liabilities at fair value through profit or loss				
— short position in debt securities	132	—	—	132
— structured products	—	—	715	715
Derivative financial liabilities				
— interest rate derivatives	—	5,176	—	5,176
— currency derivatives	29	10,899	—	10,928
— precious metals derivatives	—	732	—	732
Total financial liabilities measured at fair value	161	16,807	715	17,683

(Amounts in millions of Renminbi unless otherwise stated)

54 Fair value (Continued)

(b) Financial assets and financial liabilities measured at fair value (Continued)

Notes:

(i) During the current year, there were no significant transfers amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

(ii) The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 fair value hierarchy:

	Assets					Liabilities		
	Financial assets at fair value through profit or loss	**Financial assets at fair value through other comprehensive income**	**Financial assets designated at fair value through other comprehensive income**	**Derivative financial assets**	**Total**	**Financial liabilities at fair value through profit or loss**	**Derivative financial liabilities**	**Total**
As at 1 January 2020	**30,730**	**13,248**	**2,709**	**—**	**46,687**	**(715)**	**—**	**(715)**
Total gains or losses								
— in profit or loss	**572**	**(400)**	**—**	**—**	**172**	**—**	**—**	**—**
— in comprehensive income	**—**	**302**	**(1,089)**	**—**	**(787)**	**—**	**—**	**—**
Purchase	**2,985**	**2,103**	**153**	**—**	**5,241**	**—**	**—**	**—**
Settlements	**(11,039)**	**(2,674)**	**1,440**	**—**	**(12,273)**	**(4,516)**	**—**	**(4,516)**
Transfer in/out	**—**	**37**	**—**	**—**	**37**	**—**	**—**	**—**
Exchange effect	**(4)**	**1**	**—**	**—**	**(3)**	**—**	**—**	**—**
As at 30 June 2020	**23,244**	**12,617**	**3,213**	**—**	**39,074**	**(5,231)**	**—**	**(5,231)**

	Assets					Liabilities		
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets designated at fair value through other comprehensive income	Derivative financial assets	Total	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2019	43,155	4,726	2,412	1	50,294	—	(1)	(1)
Total gains or losses								
— in profit or loss	924	(226)	(17)	—	681	—	—	—
— in comprehensive income	—	145	14	—	159	—	—	—
Purchase	17,819	12,159	785	—	30,763	(715)	—	(715)
Settlements	(31,095)	(3,557)	(486)	(1)	(35,139)	—	1	1
Transfer in/out	(68)	—	—	—	(68)	—	—	—
Exchange effect	(5)	1	—	—	(4)	—	—	—
As at 31 December 2019	30,730	13,248	2,708	—	46,686	(715)	—	(715)

55 Related parties

(a) Relationship of related parties

(i) The Group is controlled by CITIC Corporation Limited (incorporated in Mainland China), which owns 65.37% of the Bank's shares. The ultimate parent of the Group is CITIC Group (incorporated in Mainland China).

(ii) Related parties of the Group include subsidiaries, joint ventures and associates of CITIC Corporation Limited and CITIC Group. The Bank entered into banking transactions with its subsidiaries at arm's length in the ordinary course of business. These transactions are eliminated on consolidation.

(Amounts in millions of Renminbi unless otherwise stated)

55 Related parties (Continued)

(a) Relationship of related parties (Continued)

The Bank issued 2,147,469,539 shares to CNTC through private placement on 31 December 2015, representing 4.39% shares of the Bank. A non-executive director designated by CNTC was appointed on 17 March 2016, and the appointment was approved by the CBIRC on 24 June 2016. CNTC is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

In February 2015, Xinhu Zhongbao Co., Ltd. acquired 2,292,579,000 H shares of the Bank through its wholly owned subsidiary, representing 4.68% shares of the Bank. A non-executive director designated by Xinhu Zhongbao Co., Ltd. was appointed on 17 March 2016, and the appointment was approved by the CBIRC on 16 November 2016. Xinhu Zhongbao Co., Ltd. is thereafter regarded as the Group's related party, as it has significant influence upon the Bank. On 29 November 2016, Xinhu Zhongbao Co., Ltd., increased its shareholding to 2,320,177,000 H shares of the Bank through its wholly owned subsidiary, representing 4.74% shares of the Bank. In October 2017, Xinhu Zhongbao Co., Ltd. increased its shareholding to 2,446,265,000 H shares of the Bank through its wholly owned subsidiary, representing 4.999% shares of the Bank.

Poly Group acquired 27,216,400 A shares of the Bank through the secondary market, representing 0.06% shares of the Bank. A non-executive director designated by Poly Group was appointed on 25 May 2018. Poly Group is thereafter regarded as the Group's related party as it has significant influence upon the Bank.

(b) Related party transactions

During the relevant years, the Group entered into transactions with related parties in the ordinary course of its banking businesses including lending, assets transfer (i.e. issuance of asset-backed securities in the form of public placement), wealth management, investment, deposit, settlement and clearing, off-balance sheet transactions, and purchase, sale and leases of property. These banking transactions were conducted under normal commercial terms and conditions and priced at the relevant market rates prevailing at the time of each transaction.

In addition, transactions during the relevant year and the corresponding balances outstanding at the reporting dates are as follows:

	Six months ended 30 June 2020		
	Ultimate holding company and affiliates	**Other major equity holders and subsidiaries**	**Associates and joint ventures**
Profit and loss			
Interest income	**647**	**690**	**187**
Fee and commission income and other operating income/expense	**730**	**35**	**—**
Interest expense	**(438)**	**(663)**	**—**
Net trading (losses)/gains	**(110)**	**1**	**—**
Other service fees	**(766)**	**(1)**	**(1)**

	Six months ended 30 June 2019		
	Ultimate holding company and affiliates	Other major equity holders and subsidiaries	Associates
Profit and loss			
Interest income	694	381	8
Fee and commission income and other operating income/expense	841	17	—
Interest expense	(347)	(424)	(21)
Net trading gain	50	—	—
Other service fees	(689)	—	—

(Amounts in millions of Renminbi unless otherwise stated)

55 Related parties (Continued)

(b) Related party transactions (Continued)

	30 June 2020		
	Ultimate holding company and affiliates	**Other major equity holders and subsidiaries**	**Associates and joint ventures**
Assets			
Gross loans and advances to customers	**26,805**	**33,228**	—
Less: allowance for impairment losses on loans and advances	**(482)**	**(446)**	—
Loans and advances to customers (net)	**26,323**	**32,782**	—
Deposits with banks and non-bank financial institutions	—	—	**18,616**
Placements with and loans to banks and non-bank financial institutions	**1,769**	—	—
Derivative financial assets	**399**	—	—
Financial assets held under resale agreements	**6,298**	—	—
Financial investments			
— at fair value through profit or loss	**916**	**901**	—
— at amortised cost	**1,529**	**2,318**	—
— at fair value through other comprehensive income	**3,814**	**1,035**	—
— designated at fair value through other comprehensive income	**107**	—	—
Investments in associates and joint ventures	—	—	**3,657**
Right-of-use assets	**194**	7	—
Other assets	**11,312**	—	—
Liabilities			
Deposits from banks and non-bank financial institutions	**35,856**	**178**	**249**
Placements from banks and non-bank financial institutions	**969**	—	—
Derivative financial liabilities	**581**	—	—
Deposits from customers	**62,602**	**68,268**	74
Accrued staff costs	—	—	—
Lease liabilities	**122**	7	—
Other liabilities	**1,181**	**80**	—
Off-balance sheet items			
Guarantees and letters of credit	**190**	**980**	—
Acceptances	**2,000**	**88**	—
Entrusted funds	**32,379**	**2,048**	—
Entrusted loans	**35,016**	**6,482**	—
Funds raised from investors of non-principal guaranteed wealth management products	**3,060**	**4,500**	—
Guarantees received	**15,958**	**17,198**	—
Nominal amount of derivative financial instruments	**75,570**	—	—

(Amounts in millions of Renminbi unless otherwise stated)

55 Related parties (Continued)

(b) Related party transactions (Continued)

	31 December 2019		
	Ultimate holding company and affiliates	Other major equity holders	Associates and joint ventures
Assets			
Gross loans and advances to customers	31,742	23,372	—
Less: allowance for impairment losses on loans and advances	(527)	(572)	—
Loans and advances to customers (net)	31,215	22,800	—
Deposits with banks and non-bank financial institutions	51	—	21,056
Placements with and loans to banks and non-bank financial institutions	2,879	—	—
Derivative financial assets	207	—	—
Investment in financial assets			
— at fair value through profit or loss	901	—	—
— at amortised cost	1,722	3,500	—
— at fair value through other comprehensive income	226	1,237	—
— designated at fair value through other comprehensive income	107	—	—
Investments in associates and joint ventures	—	—	3,672
Right-of-use assets	74	5	—
Other assets	11,183	150	—
Liabilities			
Deposits from banks and non-bank financial institutions	30,219	2,340	1,511
Placements from banks and non-bank financial institutions	649	—	—
Derivative financial liabilities	342	—	—
Deposits from customers	63,050	59,006	51
Employee benefits payable	12	—	—
Lease liability	70	4	—
Other liabilities	1,622	—	—
Off-balance sheet items			
Guarantees and letters of credit	9	935	—
Acceptances	2,336	258	—
Entrusted funds	35,284	3,048	—
Entrusted loans	11,989	8,117	—
Funds raised from investors of non-principal guaranteed wealth management products	2,933	—	—
Guarantees received	58,903	36,951	—
Nominal amount of derivatives	55,574	—	—

Note:

(i) Other holding companies include China National Tobacco Corporation, Xinhu Zhongbao and China Poly Group.

55 Related parties (Continued)

(b) Related party transactions (Continued)

Note: (Continued)

The related party transactions and balances between the Group and China National Tobacco Corporation, Xinhu Zhongbao and China Poly Group disclosed above fell into the period when related party relationship exists. During the six-month period ended 30 June 2020, the transactions between the Group and the subsidiaries of China National Tobacco Corporation and China Poly Group were not significant.

(c) Key management personnel and their close family members and related companies

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

The Group entered into banking transactions with key management personnel and their close family members and those companies controlled or jointly controlled by them in the normal course of business. Other than those disclosed below, there was no material transactions and balances between the Group and these individuals, their close family members or those companies controlled or jointly controlled by them.

The aggregate amount of relevant loans outstanding as at 30 June 2020 to directors, supervisors and executive officers amounted to RMB1.38 million (as at 31 December 2019: RMB1.51 million).

The aggregated compensations for directors, supervisors and executive officers of the Bank during the six months ended 30 June 2020 amounted to RMB13.15 million (Six months ended 30 June 2019: RMB11.91 million).

(d) Supplementary defined contribution plan

The Group has established a supplementary defined contribution plan for its qualified employees which is administered by CITIC Group (Note 34(b)).

(e) Transactions with state-owned entities in the PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred to as "state-owned entities").

Transactions with state-owned entities, including CNTC's indirect subsidiaries and Poly Group's indirect subsidiaries, include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— derivative transactions;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

(Amounts in millions of Renminbi unless otherwise stated)

55 Related parties (Continued)

(e) Transactions with state-owned entities in the PRC (Continued)

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. The pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. The Directors are of opinion that none of these transactions are material related party transactions that require separate disclosure.

56 Structured entities

(a) Unconsolidated structured entities held by the Group

The Group invests in unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 30 June 2020 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the consolidated interim statement of financial position under which relevant assets are recognised:

	30 June 2020				
	Carrying amount				Maximum loss exposure
	Investments in financial assets at fair value through profit or loss	Investments in financial assets at amortised costs	Investments in financial assets at fair value through other comprehensive income	Total	
Wealth management product of other banks	127	—	—	127	127
Investment management products managed by securities companies	—	118,098	119,742	237,840	237,840
Trust investment plans	18	159,894	—	159,912	159,912
Asset-backed securities	87	101,684	132,222	233,993	233,993
Investment funds	203,723	—	—	203,723	203,723
Total	203,955	379,676	251,964	835,595	835,595

(Amounts in millions of Renminbi unless otherwise stated)

56 Structured entities (Continued)

(a) Unconsolidated structured entities held by the Group (Continued)

	31 December 2019				
	Carrying amount				Maximum loss exposure
	Investments in financial assets at fair value through profit or loss	Investments in financial assets at amortised costs	Investments in financial assets at fair value through other comprehensive income	Total	
Wealth management product of other banks	133	—	—	133	133
Investment management products managed by securities companies	—	186,217	—	186,217	186,217
Trust investment plans	17	160,248	—	160,265	160,265
Asset-backed securities	87	101,684	132,222	233,993	233,993
Investment funds	218,491	—	—	218,491	218,491
Total	218,728	448,149	132,222	799,099	799,099

The maximum exposures to risk in the above wealth management products, trust investment plans, investment management products, investment funds and asset-backed securities managed by securities companies and trust investment funds are the carrying value of the assets held by the Group at the reporting date. The maximum exposures to risk in the asset-backed securities are the amortised cost or fair value of the assets held by the Group at the reporting date in accordance with the line items under which these assets are presented in the consolidated interim statement of financial position.

(b) Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed wealth management products. The wealth management products invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these wealth management products, the Group invests, on behalf of its customers, in assets as described in the investment plan related to each wealth management product and receives fee and commission income.

As at 30 June 2020, the total assets invested by these outstanding non-principal guaranteed wealth management products issued by the Group amounted to RMB1,262,937 million (31 December 2019: RMB1,200,192 million).

During the six months ended 30 June 2020, the Group's interest in these wealth management products included fee and commission income of RMB2,412 million (Six months ended 30 June 2019: RMB1,925 million); interest income of RMB509 million (Six months ended 30 June 2019: RMB612 million) and interest expense of RMB310 million (Six months ended 30 June 2019: RMB399 million).

As at 30 June 2020, the placements from the Group with these wealth management products sponsored by the Group amounted to RMB50,299 million (31 December 2019: RMB53,500 million), while the placements from these wealth management products to the Group of RMB11,770 million (31 December 2019: 35,162 million). During the six months ended 30 June 2020, the amount of maximum exposure of the placements from the Group with these wealth management products sponsored by the Group was RMB63,274 million (31 December 2019: RMB60,077 million), while no placements from these wealth management products to the Group (31 December 2019: RMB12,711 million). These transactions were conducted under normal business terms and conditions.

56 Structured entities (Continued)

(b) Unconsolidated structured entities sponsored and managed by the Group (Continued)

As at 30 June 2020, assets of these wealth management products amounting to RMB150,128 million (31 December 2019: RMB166,444 million) were invested in investments in which certain subsidiaries and associates of the CITIC Group acted as trustees.

(c) Principal guaranteed wealth management products sponsored and managed by the Group

Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items in accordance with the Group's accounting policies based on the nature of the assets and liabilities.

57 Transfers of financial assets

For the six months ended 30 June 2020, the Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements.

These transactions were entered into in the normal course of business by which recognised financial assets were transferred to third parties or structured entities. Transfers of assets may give rise to full or partial derecognition of the financial assets concerned. On the other hand, where transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Details of the financial assets sold under repurchase agreements are set forth in Note 32. Details of securitisation transactions, structured transfers on assets usufruct and loan transfer transactions conducted by the Group for the six months ended 30 June 2020 totalled RMB23,583 million (Six months ended 30 June 2019: RMB34,951 million) are set forth below.

Securitisation transactions and structured transfers on assets usufruct

During the six months ended 30 June 2020, the Group, through securitisation and by restructuring the rights to receive cash flows, transferred financial assets at the original cost of RMB20,557 million (Six months ended 30 June 2019: RMB30,487 million). The Group carried out assessment and concluded that these transferred assets qualified for full derecognition.

Loan transfers

During the six months ended 30 June 2020, the Group also transferred loans of book value before impairment of RMB3,026 million through other types of transactions (Six months ended 30 June 2019: RMB4,464 million). RMB1,263 million of this balance (Six months ended 30 June 2019: RMB4,464 million) was non-performing loans. The Group carried out assessment based on the transfer of risks and rewards of ownership and concluded that these transferred assets qualified for full derecognition.

58 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated interim 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.

As at 30 June 2020, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(Amounts in millions of Renminbi unless otherwise stated)

59 Interim statements of financial position and changes in equity of the Bank

Statement of financial position

	30 June 2020	31 December 2019
Assets		
Cash and balances with central banks	**422,872**	455,377
Deposits with banks and non-bank financial institutions	**99,391**	108,523
Precious metals	**4,434**	6,865
Placements with and loans to banks and non-bank financial institutions	**180,001**	164,896
Derivative financial assets	**15,512**	11,250
Financial assets held under resale agreements	**36,927**	9,954
Loans and advances to customers	**3,869,909**	3,673,860
Financial investments		
— at fair value through profit or loss	**287,988**	308,577
— assets at amortised cost	**944,197**	924,028
— at fair value through other comprehensive income	**665,951**	557,543
— designated at fair value through other comprehensive income	**3,238**	2,581
Investments in subsidiaries and joint ventures	**25,232**	25,163
Property, plant and equipment	**21,728**	21,931
Right-of-use asset	**11,010**	11,743
Intangible assets	**1,256**	1,347
Deferred tax assets	**42,284**	31,334
Other assets	**84,349**	78,114
Total assets	**6,716,279**	6,393,086
Liabilities		
Borrowings from central banks	**126,209**	240,258
Deposits from banks and non-bank financial institutions	**995,320**	955,451
Placements from banks and non-bank financial institutions	**19,279**	42,241
Financial liabilities at fair value through profit or loss	**159**	—
Derivative financial liabilities	**14,744**	10,907
Financial assets sold under repurchase agreements	**104,891**	111,838
Deposits from customers	**4,237,795**	3,824,031
Accrued staff costs	**16,799**	19,671
Taxes payable	**9,891**	7,929
Debt securities issued	**631,965**	638,839
Lease liability	**9,815**	10,255
Provisions	**6,098**	6,027
Other liabilities	**32,727**	26,814
Total liabilities	**6,205,692**	5,894,261
Equity		
Share capital	**48,935**	48,935
Other equity instruments	**78,083**	78,083
Capital reserve	**61,359**	61,359
Other comprehensive income	**4,929**	6,332
Surplus reserve	**39,009**	39,009
General reserve	**80,648**	80,648
Retained earnings	**197,624**	184,459
Total equity	**510,587**	498,825
Total liabilities and equity	**6,716,279**	6,393,086

(Amounts in millions of Renminbi unless otherwise stated)

59 Interim statements of financial position and changes in equity of the Bank (Continued)

Statement of changes in equity

	Share capital	**Other equity instruments**	**Capital reserve**	**Other comprehensive income**	**Surplus reserve**	**General reserve**	**Retained earnings**	**Total equity**
As at 31 December 2019/ 1 January 2020	**48,935**	**78,083**	**61,359**	**6,332**	**39,009**	**80,648**	**184,459**	**498,825**
(i) Profit for the period	—	—	—	—	—	—	**24,860**	**24,860**
(ii) Other comprehensive income	—	—	—	**(1,403)**	—	—	—	**(1,403)**
Total comprehensive income	—	—	—	**(1,403)**	—	—	**24,860**	**23,457**
(iii) Profit appropriations — Dividend distribution to ordinary shareholders of the Bank	—	—	—	—	—	—	**(11,695)**	**(11,695)**
As at 30 June 2020	**48,935**	**78,083**	**61,359**	**4,929**	**39,009**	**80,648**	**197,624**	**510,587**

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 31 December 2018/ As at 1 January 2019	48,935	34,955	61,359	5,167	34,450	73,370	163,289	421,525
(i) Profit for the period	—	—	—	—	—	—	27,012	27,012
(ii) Other comprehensive income	—	—	—	(8)	—	—	—	(8)
Total comprehensive income	—	—	—	(8)	—	—	27,012	27,004
(iii) Issuing of other equity instruments — Convertible corporate bonds	—	3,135	—	—	—	—	—	3,135
(iv) Profit appropriations — Dividend distribution to ordinary shareholders of the Bank	—	—	—	—	—	—	(11,255)	(11,255)
As at 30 June 2019	48,935	38,090	61,359	5,159	34,450	73,370	179,046	440,409

(Amounts in millions of Renminbi unless otherwise stated)

59 Interim statements of financial position and changes in equity of the Bank (Continued)

Statement of changes in equity (Continued)

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 31 December 2018/ As at 1 January 2019	48,935	34,955	61,359	5,167	34,450	73,370	163,289	421,525
(i) Net profit	—	—	—	—	—	—	45,592	45,592
(ii) Other comprehensive income	—	—	—	1,165	—	—	—	1,165
Total comprehensive income	—	—	—	1,165	—	—	45,592	46,757
(iii) Investor capital								
— Issue convertible bonds	—	3,135	—	—	—	—	—	3,135
(iv) Issue other equity instruments								
— Undated capital bonds	—	39,993	—	—	—	—	—	39,993
(v) Profit appropriations								
— Appropriations to surplus reserve	—	—	—	—	4,559	—	(4,559)	—
— Appropriations to general reserve	—	—	—	—	—	7,278	(7,278)	—
— Dividend distribution to ordinary shareholders of the bank	—	—	—	—	—	—	(11,255)	(11,255)
— Dividend distribution to preference shareholders of the bank	—	—	—	—	—	—	(1,330)	(1,330)
As at 31 December 2019	48,935	78,083	61,359	6,332	39,009	80,648	184,459	498,825

60 Events after the reporting period

(a) With the approvals of the regulatory authorities, CITIC Bank was cleared to make a public offering of RMB50 billion special financial bonds for small and micro enterprises (Special SmE Bonds) in the national interbank bond market.

On 18 March 2020, CITIC Bank issued the 2020 Series 1 Special SmE Bonds. The funds raised will be used to provide loans to small and micro enterprises to help them overcome the difficult period caused by the covid-19 outbreak. The three-year bonds have a coupon rate of 2.75%. The Series 2 will be issued as needed, with a total amount of no more than RMB20 billion.

(b) Under the approval of regulatory authorities, CITIC Bank issued RMB40 billion of Tier 2 Capital Notes on 14 August 2020. The 10-year Notes with conditional redemption right by the issuer at the end of the fifth year have a coupon rate of 3.87%. The net proceeds from the issue of the Notes will be used to boost the Tier 2 Capital of the Bank in accordance with the applicable laws and for the purposes approved by the regulatory authorities.

(c) CITIC Wealth Management Corporation Limited (hereinafter referred to as "CITIC Wealth Management") initiated and set up by the Bank was approved to carry out business operation by China Banking and Insurance Regulatory Commission on June 2020, and was formally established on July 2020. CITIC Wealth Management is a wholly-owned subsidiary of the Bank with a registered capital of RMB5 billion.

(d) With the approval from the Board of Directors dated 27 August 2020, the Bank proposes to increase its investment in Baixin by RMB2,027 million.

61 Comparative data

Certain comparative data has been restated to conform to the presentation of the current year.

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