*This announcement and the listing documents referred herein are for informational purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and is not for distribution, directly or indirectly, in or into the United States.*

*Neither of this announcement and the listing documents referred herein constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Neither this announcement nor anything herein (including the listing documents) forms the basis for any contract or commitment whatsoever. The securities referred to herein will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold in the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. No public offer of securities referred to herein is being or will be made in the United States.*

For the avoidance of doubt, the publication of this announcement and the listing documents referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

中国农业银行
AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED
中 國 農 業 銀 行 股 份 有 限 公 司

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

(Stock Code: 1288)

U.S.$650,000,000 0.85 per cent. Notes due 2024 (Stock Code: 40537) (the "2024 Notes") U.S.$300,000,000 1.25 per cent. Green Notes due 2026 (Stock Code: 40538) (the "2026 Green Notes", together with the 2024 Notes, the "Notes")

issued under the U.S.$15,000,000,000 Medium Term Note Programme

PUBLICATION OF SUPPLEMENTAL OFFERING CIRCULAR AND PRICING SUPPLEMENTS

Reference is made to the notice of Agricultural Bank of China Limited (the "**Bank**") dated 19 January 2021 in respect of the offering and issuance of the Notes (the "**Formal Notice**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined in the Formal Notice.

This announcement is issued pursuant to Rule 37.39A of the Listing Rules. Please refer to the supplemental offering circular dated 11 January 2021, the pricing supplement in respect of the 2024 Notes and the pricing supplement in respect of the 2026 Green Notes, both dated 11 January 2021, and the offering circular dated 24 August 2020 in respect of the U.S.$15,000,000,000 Medium Term Note Programme (collectively, the "**Listing Documents**"), appended herein in relation to the issuance of the Notes. The Listing Documents are published in English only. No Chinese versions of the Listing Documents have been published.

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 Listing Rules) only and have been 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 or elsewhere. Investors should carefully consider the risks involved.

Hong Kong, 20 January 2021

As at the date of this announcement, the executive directors are Mr. ZHANG Qingsong and Mr. ZHANG Xuguang; the non-executive directors are Mr. ZHU Hailin, Mr. LIAO Luming, Mr. LI Qiyun, Mr. LI Wei and Mr. WU Jiangtao; and the independent non-executive directors are Ms. XIAO Xing, Mr. WANG Xinxin, Mr. HUANG Zhenzhong, Ms. LEUNG KO May Yee, Margaret and Mr. LIU Shouying.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND ARE NOT U.S. PERSONS

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")). THIS OFFERING IS MADE SOLELY TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THIS SUPPLEMENTAL OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view this Supplemental Offering Circular or make an investment decision with respect to the securities, investors must be a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Supplemental Offering Circular, you shall be deemed to have represented to Agricultural Bank of China Limited Hong Kong Branch, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, J.P. Morgan Securities plc, Merrill Lynch (Asia Pacific) Limited and Mizuho Securities Asia Limited (collectively, the "**Joint Global Coordinators**"), Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Chiyu Banking Corporation Limited, CLSA Limited, CMB Wing Lung Bank Limited, DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Wells Fargo Securities International Limited (together with the Joint Global Coordinators, the "**Joint Lead Managers**"), Agricultural Bank of China Limited (the "**Bank**") and Agricultural Bank of China Limited New York Branch (the "**Issuer**") (1) that you and any customers you represent are and that the electronic mail address that you gave the Issuer and to which this e-mail has been delivered is not located in the United States, (2) that you are not a U.S. person, or acting to, the account or benefit of a U.S. person (in each case as defined in Regulation S) and (3) that you consent to delivery of the attached Supplemental Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that this Supplemental Offering Circular has been delivered to you on the basis that you are a person into whose possession this Supplemental 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 or disclose the contents of this Supplemental Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

This Supplemental Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

This Supplemental Offering Circular have been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers or the Agents (as defined herein), nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Supplemental Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

中国农业银行

AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED

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

AGRICULTURAL BANK OF CHINA LIMITED NEW YORK BRANCH

U.S.$650,000,000 0.85 per cent. Notes due 2024

U.S.$300,000,000 1.25 per cent. Green Notes due 2026

Issued under

U.S.$15,000,000,000

Medium Term Note Programme

This Supplemental Offering Circular (the "**Supplemental Offering Circular**") is supplemental to the Offering Circular dated 24 August 2020 (the "**Offering Circular**") and is prepared in connection with the issue of U.S.$650,000,000 0.85 per cent. Notes due 2024 (the "**2024 Notes**") and the U.S.$300,000,000 1.25 per cent. Green Notes due 2026 (the "**2026 Green Notes**" and together with the 2024 Notes, the "**Notes**") by Agricultural Bank of China Limited New York Branch (the "**Issuer**" or the "**Branch**") under the U.S.$15,000,000,000 Medium Term Note Programme (the "**Programme**") of Agricultural Bank of China Limited (the "**Bank**"). Terms defined in the Offering Circular have the same meaning when used in this Supplemental Offering Circular. This Supplemental Offering Circular is supplemental to, and forms part of, and should be read in conjunction with the Offering Circular and any other supplements to the Offering Circular issued by the Issuer or the Bank. With effect from the date of this Supplemental Offering Circular, the information appearing in the Offering Circular shall be amended and/or supplemented by the inclusion of the information set out in this Supplemental Offering Circular.

Pursuant to the annual foreign debt quota granted by the National Development and Reform Commission of the PRC (the "**NDRC**") to the Bank in 2020 (the "**Quota**"), separate pre-issuance registration with the NDRC with respect to the Notes is not required as the Notes will be issued within the aforesaid Quota, but the Bank is still required to file with the NDRC the requisite information on the issuance of the Notes after the issuance of the Notes. The Bank intends to provide the requisite information on the issuance of each Series of Notes to the NDRC within the time period prescribed by 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 on 14 September 2015 which came into effect on the same day and any relevant rules and regulations from time to time issued by the NDRC (together, the "**NDRC Regulations**") and the terms of the Quota.

Investing in the Notes involves certain risks. Prospective investors should have regard, among others, to the factors described under the section entitled "*Risk Factors*" in the Offering Circular and in this Supplemental Offering Circular.

Application will be made to The Stock Exchange of Hong Kong Limited (the "**HKSE**") for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Professional Investors**")) only. This document 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 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.**

The HKSE has not reviewed the contents of this Supplemental Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Supplemental Offering Circular to Professional Investors only have been reproduced in this Supplemental Offering Circular. Listing of the Programme and the Notes on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Bank or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Supplemental 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 Supplemental Offering Circular.

Each Series of Notes will be issued in registered form and will initially be represented by a permanent global certificate (each a "**Global Certificate**") without interest coupons registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the relevant Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a description of certain restrictions on offers and sales of the Notes and the distribution of the Offering Circular and this Supplemental Offering Circular, see the section entitled "*Subscription and Sale*" in the Offering Circular and in this Supplemental Offering Circular.

The Notes are expected to be rated "A1" by Moody's Investors Service Hong Kong Ltd. ("**Moody's**"). This rating is only correct as at the date of this Supplemental Offering Circular. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Joint Global Coordinators

Agricultural Bank of China Limited Hong Kong Branch | **BofA Securities** | **Citigroup**

Crédit Agricole CIB | **J.P. Morgan** | **Mizuho Securities**

Joint Lead Managers

Bank of China | **Bank of Communications** | **Chiyu Banking Corporation Limited** | **CLSA** | **CMB Wing Lung Bank Limited**

DBS Bank Ltd. | **HSBC** | **Standard Chartered Bank** | **Wells Fargo Securities**

Supplemental Offering Circular dated 11 January 2021

IMPORTANT NOTICE

Each of the Bank and the Issuer, having made all reasonable enquiries, confirm that to the best of its knowledge this Supplemental Offering Circular (read together with the Offering Circular) contains or incorporates all information which is material in the context of the issuance and offering of the Notes, that the information contained or incorporated by reference in this Supplemental Offering Circular (read together with the Offering Circular) is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Supplemental Offering Circular (read together with the Offering Circular) are honestly held and that there are no other facts the omission of which would make this Supplemental Offering Circular (read together with the Offering Circular) or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Notes. Each of the Bank and the Issuer accepts responsibility accordingly.

This Supplemental Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see the section entitled "*Documents Incorporated by Reference*"), the Offering Circular, the pricing supplement dated 11 January 2021 in relation to the 2024 Notes (the "**2024 Notes Pricing Supplement**") and the pricing supplement dated 11 January 2021 in relation to the 2026 Green Notes (the "**2026 Green Notes Pricing Supplement**" and together with the 2024 Notes Pricing Supplement, the "**Pricing Supplements**").

No person has been authorised to give any information or to make any representation other than those contained in this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by Agricultural Bank of China Limited Hong Kong Branch, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, J.P. Morgan Securities plc, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited (collectively, the "Joint Global Coordinators"), Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Chiyu Banking Corporation Limited, CLSA Limited, CMB Wing Lung Bank Limited, DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Wells Fargo Securities International Limited (together with the Joint Global Coordinators, the "Joint Lead Managers"), the Bank, the Issuer or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). None of this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements or any other information supplied in connection with the Notes should be considered as a recommendation by the Bank, the Issuer, the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Supplemental Offering Circular, the Offering Circular, the Pricing Supplements or any other information supplied in connection with the Notes should purchase the Notes. This Supplemental Offering Circular, the Offering Circular and the Pricing Supplements do not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank and the Issuer. None of this Supplemental Offering Circular, the Offering Circular, the Pricing Supplements and any other information supplied in connection with the issue of the Notes constitutes an offer or invitation by or on behalf of the Bank, the Issuer, the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) to any person to subscribe for or to purchase the Notes.

Neither the delivery of this Supplemental Offering Circular, the Offering Circular, the Pricing Supplements nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Bank and its consolidated subsidiaries (together, the "**Group**") since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof.

PRIIPS REGULATION — PROHIBITION OF SALES TO EEA 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**"). 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. 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 has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION - PROHIBITION OF SALES TO 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 United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MIFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of the 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer'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 (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' (as defined in the CMP Regulations 2018) and are Excluded 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).

The distribution of this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements come are required by the Bank, the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restriction.

The Notes are being offered and sold to non-U.S. persons outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Supplemental Offering Circular and the Offering Circular, see the section entitled "*Subscription and Sale*" of this Supplemental Offering Circular and the Offering Circular.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS SUPPLEMENTAL OFFERING CIRCULAR, THE OFFERING CIRCULAR OR THE PRICING SUPPLEMENTS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Supplemental Offering Circular, the Offering Circular and the Pricing Supplements do not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Bank, the Issuer, the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the Issuer, the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) represents that this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements may be lawfully distributed, or that the 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, unless specifically indicated to the contrary in the Pricing Supplement, no action has been taken by the Bank, the Issuer, the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) which is intended to permit a public offering of the Notes or distribution of this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Supplemental Offering Circular, the Offering Circular, the Pricing Supplements and 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 Supplemental Offering Circular, the Offering Circular, the Pricing Supplements or the Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements and the offering and sale of the Notes. In particular, there are restrictions on the distribution of this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements and the offer or sale of the Notes in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Japan, Australia and New Zealand. See the section entitled "*Subscription and Sale*" of this Supplemental Offering Circular and the Offering Circular.

To the fullest extent permitted by law, none of the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accept any responsibility for the contents of this Supplemental Offering Circular, the Offering Circular, the Pricing Supplements or for any other statement, made or purported to be made by a Joint Lead Manager or any Agent or on its behalf in connection with the Issuer, the Bank, the Group or the issue and offering of the Notes. The Joint Lead Managers and the Agents (and any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accordingly disclaim 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 Supplemental Offering Circular, the Offering Circular and the Pricing Supplements or any such statement. None of this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements and any financial statements of the Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Bank, the Issuer, the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Supplemental Offering Circular or any financial statements of the Issuer or the Group should purchase the Notes.

Each potential investor of the Notes should determine for itself the relevance of the information contained in this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements and its purchase of the Notes should be based upon such investigation as it deems necessary. None of the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Lead Managers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them).

This Supplemental Offering Circular and the Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purposes of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular and in the Offering Circular 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.

The Joint Lead Managers and their respective subsidiaries and 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, corporate financing, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Joint Lead Managers and their respective subsidiaries and affiliates may have, from time to time, performed and may in the future perform, various Banking Services or Transactions with the Issuer, or its subsidiaries and affiliates, for which they have received, or will receive, customary fees and expenses.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective subsidiaries and affiliates may 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 such investment and securities activities may involve securities and/or instruments of the Issuer and its subsidiaries or affiliates. Certain of the Joint Lead Managers and their respective subsidiaries and affiliates may from time to time also enter into swap and other derivative transactions with the Issuer and its subsidiaries or affiliates. The Joint Lead Managers and their respective subsidiaries and affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with the Notes, the Joint Lead Managers or certain of their subsidiaries or affiliates, or the Issuer and its subsidiaries and affiliates, may act as investors and place orders, purchase and receive allocations and may trade the Notes for their own account and such orders, purchases, allocations or trade 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 of the Notes. Accordingly, references herein to the Notes being 'offered' should be read as the offering of the Notes to the Joint Lead Managers and/or their respective subsidiaries, or to the Issuer and its subsidiaries and affiliates, 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 applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Issuer does not and the Joint Lead Managers and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

IN CONNECTION WITH THE NOTES, ANY OF THE JOINT LEAD MANAGERS APPOINTED AND ACTING AS THE STABILISATION MANAGER(S) (THE "STABILISATION MANAGER(S)"), IN THE 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 FOR A LIMITED PERIOD AFTER THE CLOSING DATE OF THE NOTES. HOWEVER, THERE IS NO OBLIGATION ON SUCH STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) TO DO THIS. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In this Supplemental Offering Circular, unless otherwise specified, references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "PRC" or "China" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, references to "U.S.$" or "U.S. dollars" are to the lawful currency of the United States of America, and references to "CNY" are to the lawful currency of the PRC. Terms defined in the Offering Circular have the same meaning when used in this Supplemental Offering Circular.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer hereby incorporates by reference to this Supplemental Offering Circular:

i. the unaudited and reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2020 (which include the comparative financial information as at and for the six months ended 30 June 2019), together with the review report prepared in connection therewith which can be found on the website of the HKSE; and

ii. the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2020 (which include the comparative financial information as at and for the nine months ended 30 September 2019) which can be found on the website of the HKSE.

The unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2020 have not been audited or reviewed by the Bank's independent auditors and were prepared under IFRS. The unaudited and unreviewed 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. None of the Joint Lead Managers or the Agents nor any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them make any representation, or warranty, express or implied, regarding the sufficiency of the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2020 for an assessment of the Bank's financial condition, results of operations and results. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. The quarterly interim financial information should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

This Supplemental Offering Circular is supplemental to, forms part of and should be read and construed in conjunction with the Offering Circular relating to the Programme and the Pricing Supplements. Such documents shall be incorporated in and form part of this Supplemental Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Supplemental Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Supplemental Offering Circular. Any documents themselves incorporated by reference in the documents incorporated by reference in this Supplemental Offering Circular shall not form part of this Supplemental Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Supplemental Offering Circular will be available (upon written request) free of charge, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the specified office of the Bank and of the Paying Agents set out at the end of this Supplemental Offering Circular.

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*" and elsewhere in this Supplemental Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or the negative thereof, or expressions identify forward-looking statements.

In addition, all statements other than statements of historical facts included in this Supplemental Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based.

This Supplemental Offering Circular and the Offering Circular disclose, under the section entitled "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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RECENT DEVELOPMENTS

Financial Results

The Bank published its interim report for the six months ended 30 June 2020 (the "**Interim Report**") on 31 August 2020 and its quarterly report for the nine months ended 30 September 2020 (the "**Third Quarter Report**") on 30 October 2020. The Interim Report contains the unaudited and reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2020 and the Third Quarter Report contains the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2020. The unaudited and reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2020 and the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2020 are incorporated by reference to this Supplemental Offering Circular and can be found on the website of the HKSE.

Board of Directors

On 15 October 2020, the Bank announced that Mr. ZHANG Xuguang had commenced serving as an executive director of the Bank, and as a member of each of the Strategic Planning Committee, the Risk Management/Consumers' Interest Protection Committee and Risk Management Committee of Institutions in the United States Regions as from 12 October 2020 following the approval by CBIRC. Mr. ZHANG was elected as an executive director of the Bank at the Bank's annual general meeting held on 3 July 2020, subject to the ratification of his qualification as a director of the Bank by the CBIRC.

On 30 November 2020, the Bank announced that Ms. ZHANG Keqiu had tendered her resignation to the board of directors from the position as an executive director, an executive vice president and a member of each of the Strategic Planning Committee, the Risk Management/Consumers' Interest Protection Committee and the Risk Management Committee of Institutions in the United States Regions of the Board of the Bank and that the resignation took place as of 30 November 2020.

Issue of Undated Capital Bonds in 2020 (Second Tranche)

On 24 August 2020, the Bank issued Undated Capital Bonds (Second Tranche) of Agricultural Bank of China Limited in China's national inter-bank bond market, following the approval from CBIRC and PBOC. The size of issue of the Undated Capital Bonds was CNY35 billion. The initial coupon rate is 3.48 per cent. during the first five years and will be adjusted every five years.

DESCRIPTION OF THE NEW YORK BRANCH

The New York Branch of Agricultural Bank of China began operations in October 2012. The Branch is licensed by the New York State Department of Financial Services and engages in wholesale deposit-taking, lending and other banking services primarily for business clients. As at September 30, 2020, the Branch had total assets of approximately U.S.$7.1 billion.

As at September 30, 2020, the Branch had 106 full-time employees under payroll.

The Branch is subject to regulation and supervision by the New York State Department of Financial Services under the New York Banking Law and is also subject to regulation and supervision by the U.S. Federal Reserve Board.

RISK FACTORS

The section "Risk Factors – Risks Relating to the Notes Issued under the Programme" in the Offering Circular shall be supplemented with the following:

The 2026 Green Notes may not be a suitable investment for all investors seeking exposure to green assets.

There is currently no market consensus on what precise attributes are required for a particular project to be defined as "green", and therefore no assurance can be given to potential investors that the relevant Eligible Green Projects (as defined in the section entitled "*Notes Issued as Green Bonds*") will continue to meet the relevant eligibility criteria. Accordingly, no assurance can be given to investors that any Eligible Green Projects will meet any or all investor expectations regarding such 'green', 'sustainable' or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any Eligible Green Projects.

Although applicable green projects are expected to be selected in accordance with the categories recognised by the Green Bond Principles 2018 (as defined in the section entitled "*Notes Issued as Green Bonds*") and are expected to be developed in accordance with applicable legislation and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operation of any such green projects. Where any negative impacts are insufficiently mitigated, green projects may become controversial, and/or may be criticised by activist groups or other stakeholders.

No assurance is given by the Bank or the Issuer that the use of the proceeds of the 2026 Green Notes will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects. In the event that the 2026 Green Notes are included in any dedicated "green", "environmental", "sustainable" or other equivalently-labelled index, no assurance is given by the Bank or the Issuer or any other person that such listing or admission, or inclusion in such index, satisfies any present or future investor expectations or requirements as regards to any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable laws or regulations or by its own constitutive documents or other governing rules or investment portfolio mandates. Each potential investor should have regard to the factors described under "*Notes Issued as Green Bonds*" and determine for itself the relevance of the information contained in this Supplemental Offering Circular regarding the use of proceeds and its purchase of the 2026 Green Notes based upon such investigation as it deems necessary.

None of the Bank, the Issuer or the Joint Lead Managers make any representation as to whether the 2026 Green Notes fulfil the relevant environmental criteria. Each potential purchaser of the 2026 Green Notes should determine for itself the relevance of the information contained in the Offering Circular, this Supplemental Offering Circular and in the Pricing Supplements relating to the 2026 Green Notes regarding the use of proceeds and its purchase of the 2026 Green Notes should be based upon such investigation as it deems necessary.

The Bank and the Issuer are not contractually committed to allocate an amount equal to the net proceeds from the issuance of the 2026 Green Notes to Eligible Green Projects, and a failure to do so could adversely affect the value of the 2026 Green Notes.

While the Issuer has agreed to certain obligations relating to use of proceeds and reporting as described under the sections entitled "*Use of Proceeds*" and "*Notes Issued as Green Bonds*" of this Supplemental Offering Circular, it would not be an Event of Default under the Terms and Conditions of the 2026 Green Notes if the Issuer were to fail to use an amount equal to the net proceeds from the issuance of the 2026 Green Notes or to comply with the reporting obligations under the sections entitled "*Use of Proceeds*" and "*Notes Issued as Green Bonds*". While the Issuer intends to apply the proceeds of the 2026 Green Notes in the manner described in this Supplemental Offering Circular, examples of Eligible Green Projects in "*Notes Issued as Green Bonds*" are for illustrative purposes only and no assurance can be given that disbursements for projects with these specific characteristics will be made by the Issuer during the term of the 2026 Green Notes. Any failure to use an amount equal to the net proceeds in connection with such Eligible Green Projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain investors with environmental and/or social concerns with respect to the 2026 Green Notes may affect the value of the 2026 Green Notes, and/or may have consequences for certain investors with portfolio mandates to invest in green projects.

PRICING SUPPLEMENT FOR THE 2024 NOTES

Pricing Supplement dated 11 January 2021

Agricultural Bank of China Limited New York Branch

Issue of U.S.$650,000,000 0.85 per cent. Notes due 2024 (the "**Notes**")
under the U.S.$15,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. 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 dated 24 August 2020 as supplemented by the Supplemental Offering Circular dated 11 January 2021 (together, the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and supplements the Offering Circular and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

Notification under Section 309B(1)(c) of the SFA: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures Act (Capital Market 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 (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

PRIIPs REGULATION - PROHIBITION OF SALES TO EEA 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**"). 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 ("**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**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. 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 has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION - PROHIBITION OF SALES TO 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 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of the 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Notice to Hong Kong investors: The Issuer 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 (the "Hong Kong Stock Exchange")) ("Professional Investors") only and will be listed on the Hong Kong Stock Exchange on that basis. This document is for distribution to Professional Investors only. 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 Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") 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 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 or the Issuer 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 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.

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:	Agricultural Bank of China Limited New York Branch *(incorporated in the People's Republic of China with limited liability)*
2	(i) Series Number:	327
	(ii) Tranche Number (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.):	1
	(iii) Tax Jurisdiction:	New York
3	Specified Currency or Currencies:	United States dollars ("**U.S.$**")
4	Aggregate Nominal Amount:	
	(i) Series:	U.S.$650,000,000
	(ii) Tranche:	U.S.$650,000,000
5	(i) Issue Price:	99.855 per cent. of the Aggregate Nominal Amount
	(ii) Gross proceeds:	U.S.$649,057,500
6	(i) Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii) Calculation Amount:	U.S.$1,000
7	(i) Issue Date:	19 January 2021
	(ii) Interest Commencement Date:	Issue Date
8	Maturity Date:	19 January 2024
9	Interest Basis:	0.85 per cent. Fixed Rate (further particulars specified below)
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable
13	Status of the Notes:	Senior Notes
14	NDRC approval(s)/reporting:	The annual foreign debt issuance quota in 2020 granted by the NDRC to Agricultural Bank of China Limited (the "**Bank**") in an approval letter

		dated 26 March 2020 pursuant to the NDRC Circular (the "**NDRC Quota Letter**"); and letter dated 25 December 2020 issued by the Bank authorising the Issuer to utilise the quota granted pursuant to the NDRC Quota Letter. The requisite information and documents in connection with the Notes shall be provided to the NDRC within 10 business days after the Issue Date.
15	Listing:	Hong Kong Stock Exchange *(Listing is expected to be effective from 20 January 2021.)*
16	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	Fixed Rate Note Provisions:	Applicable
	(i) Rate of Interest:	0.85 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	19 January and 19 July in each year
	(iii) Fixed Coupon Amount:	U.S.$4.25 per Calculation Amount
	(iv) Broken Amount:	Not Applicable
	(v) Day Count Fraction (Condition 5(j)):	30/360
	(vi) Determination Date(s) (Condition 5(j)):	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18	Floating Rate Note Provisions:	Not Applicable
19	Zero Coupon Note Provisions:	Not Applicable
20	Index Linked Interest Note Provisions:	Not Applicable
21	Dual Currency Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

22	Call Option:	Not Applicable
23	Put Option:	Not Applicable
24	Final Redemption Amount of each Note:	U.S.$1,000 per Calculation Amount
25	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(a) or 10(b)) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	Form of Notes:	Registered Notes Permanent Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the permanent Global Certificate
27	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Not Applicable

28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
29	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
30	Details relating to Instalment Notes:	Not Applicable
31	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
32	Consolidation provisions:	Not Applicable
33	Other terms or special conditions:	Not Applicable

DISTRIBUTION

34	(i) If syndicated, names of Managers:	Agricultural Bank of China Limited Hong Kong Branch Bank of China (Hong Kong) Limited Bank of Communications Co., Ltd. Hong Kong Branch Chiyu Banking Corporation Limited Citigroup Global Markets Limited CLSA Limited CMB Wing Lung Bank Limited Crédit Agricole Corporate and Investment Bank DBS Bank Ltd. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch (Asia Pacific) Limited Mizuho Securities Asia Limited Standard Chartered Bank Wells Fargo Securities International Limited (together, the "**Joint Lead Managers**" and each, a "**Joint Lead Manager**")
	(ii) Stabilisation Manager (if any):	Any of the Joint Lead Managers in its capacity as stabilisation manager
35	If non-syndicated, name of Dealer:	Not Applicable
36	U.S. Selling Restrictions:	Reg. S Category 2; TEFRA Not Applicable
37	Additional selling restrictions:	Not Applicable

OPERATIONAL INFORMATION

38	ISIN Code:	XS2279820125
39	Common Code:	227982012
40	CMU Instrument Number:	Not Applicable
41	Legal Entity Identifier:	The legal entity identifier of Agricultural Bank of China Limited New York Branch is 549300E7TSGLCOVSY746
42	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s):	Not Applicable

43	Delivery:	Delivery against payment
44	Additional Paying Agents (if any):	None
	GENERAL	
45	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [ ], producing a sum of (for Notes not denominated in U.S. dollars):	Not Applicable
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
47	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
48	Private Bank Commission:	Not Applicable
49	Ratings:	The Notes are expected to be rated "A1" by Moody's Investors Services, Inc.

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$15,000,000,000 Medium Term Note Programme of Agricultural Bank of China Limited. Application has been made to The Stock Exchange of Hong Kong Limited ("**HKSE**") for permission to deal in, and for listing of, the Notes to be so listed on the HKSE.

STABILISING

In connection with this issue of Notes, one or more of the Joint Lead Managers named as stabilisation manager(s) (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) 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 assurance that the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2020 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2020.

RESPONSIBILITY

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

Signed on behalf of Agricultural Bank of China Limited New York Branch:

By: ________________________________

Duly authorised

PRICING SUPPLEMENT FOR THE 2026 GREEN NOTES

Pricing Supplement dated 11 January 2021

Agricultural Bank of China Limited New York Branch

Issue of U.S.$300,000,000 1.25 per cent. Green Notes due 2026 (the "**Notes**")
under the U.S.$15,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. 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 dated 24 August 2020 as supplemented by the Supplemental Offering Circular dated 11 January 2021 (together, the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and supplements the Offering Circular and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

Notification under Section 309B(1)(c) of the SFA: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures Act (Capital Market 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 (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

PRIIPs REGULATION - PROHIBITION OF SALES TO EEA 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**"). 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 ("**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**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. 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 has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION - PROHIBITION OF SALES TO 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 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of the 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Notice to Hong Kong investors: The Issuer 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 (the "Hong Kong Stock Exchange")) ("Professional Investors") only and will be listed on the Hong Kong Stock Exchange on that basis. This document is for distribution to Professional Investors only. 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 Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") 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 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 or the Issuer 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 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.

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:	Agricultural Bank of China Limited New York Branch *(incorporated in the People's Republic of China with limited liability)*
2	(i) Series Number:	328
	(ii) Tranche Number (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.):	1
	(iii) Tax Jurisdiction:	New York
3	Specified Currency or Currencies:	United States dollars ("**U.S.$**")
4	Aggregate Nominal Amount:	
	(iii) Series:	U.S.$300,000,000
	(ii) Tranche:	U.S.$300,000,000
5	(i) Issue Price:	99.807 per cent. of the Aggregate Nominal Amount
	(ii) Gross proceeds:	U.S.$299,421,000
6	(iv) Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(v) Calculation Amount:	U.S.$1,000
7	(vi) Issue Date:	19 January 2021
	(vii) Interest Commencement Date:	Issue Date
8	Maturity Date:	19 January 2026
9	Interest Basis:	1.25 per cent. Fixed Rate (further particulars specified below)
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable

13	Status of the Notes:	Senior Notes
14	NDRC approval(s)/reporting:	The annual foreign debt issuance quota in 2020 granted by the NDRC to Agricultural Bank of China Limited (the "**Bank**") in an approval letter dated 26 March 2020 pursuant to the NDRC Circular (the "**NDRC Quota Letter**"); and letter dated 25 December 2020 issued by the Bank authorising the Issuer to utilise the quota granted pursuant to the NDRC Quota Letter. The requisite information and documents in connection with the Notes shall be provided to the NDRC within 10 business days after the Issue Date.
15	Listing:	Hong Kong Stock Exchange *(Listing is expected to be effective from 20 January 2021.)*
16	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	Fixed Rate Note Provisions:	Applicable
	(viii) Rate of Interest:	1.25 per cent. per annum payable semi-annually in arrear
	(ix) Interest Payment Date(s):	19 January and 19 July in each year
	(x) Fixed Coupon Amount:	U.S.$6.25 per Calculation Amount
	(xi) Broken Amount:	Not Applicable
	(xii) Day Count Fraction (Condition 5(j)):	30/360
	(xiii) Determination Date(s) (Condition 5(j)):	Not Applicable
	(xiv) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18	Floating Rate Note Provisions:	Not Applicable
19	Zero Coupon Note Provisions:	Not Applicable
20	Index Linked Interest Note Provisions:	Not Applicable
21	Dual Currency Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

22	Call Option:	Not Applicable
23	Put Option:	Not Applicable
24	Final Redemption Amount of each Note:	U.S.$1,000 per Calculation Amount
25	Early Redemption Amount:	
	(xv) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10(a) or 10(b)) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	Form of Notes:	Registered Notes

		Permanent Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the permanent Global Certificate
27	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Not Applicable
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
29	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
30	Details relating to Instalment Notes:	Not Applicable
31	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
32	Consolidation provisions:	Not Applicable
33	Other terms or special conditions:	Not Applicable
	DISTRIBUTION	
34	(xvi) If syndicated, names of Managers:	Agricultural Bank of China Limited Hong Kong Branch Bank of China (Hong Kong) Limited Bank of Communications Co., Ltd. Hong Kong Branch Chiyu Banking Corporation Limited Citigroup Global Markets Limited CLSA Limited CMB Wing Lung Bank Limited Crédit Agricole Corporate and Investment Bank DBS Bank Ltd. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch (Asia Pacific) Limited Mizuho Securities Asia Limited Standard Chartered Bank Wells Fargo Securities International Limited (together, the "**Joint Lead Managers**" and each, a "**Joint Lead Manager**")
	(xvii) Stabilisation Manager (if any):	Any of the Joint Lead Managers in its capacity as stabilisation manager
35	If non-syndicated, name of Dealer:	Not Applicable
36	U.S. Selling Restrictions:	Reg. S Category 2; TEFRA Not Applicable
37	Additional selling restrictions:	Not Applicable
	OPERATIONAL INFORMATION	
38	ISIN Code:	XS2281989785
39	Common Code:	228198978

40	CMU Instrument Number:	Not Applicable
41	Legal Entity Identifier:	The legal entity identifier of Agricultural Bank of China Limited New York Branch is 549300E7TSGLCOVSY746
42	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s):	Not Applicable
43	Delivery:	Delivery against payment
44	Additional Paying Agents (if any):	None
	GENERAL	
45	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [ ], producing a sum of (for Notes not denominated in U.S. dollars):	Not Applicable
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
47	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
48	Private Bank Commission:	Not Applicable
49	Ratings:	The Notes are expected to be rated "A1" by Moody's Investors Services, Inc.

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$15,000,000,000 Medium Term Note Programme of Agricultural Bank of China Limited. Application has been made to The Stock Exchange of Hong Kong Limited ("**HKSE**") for permission to deal in, and for listing of, the Notes to be so listed on the HKSE.

STABILISING

In connection with this issue of Notes, one or more of the Joint Lead Managers named as stabilisation manager(s) (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) 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 assurance that the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2020 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2020.

USE OF PROCEEDS

An amount equal to the net proceeds from the issuance of the Notes will be used for financing, or refinancing, Eligible Green Projects (as defined in the Offering Circular). See the sections entitled "*Use of Proceeds*" and "*Notes Issued as Green Bonds*" of the Offering Circular for more details.

RESPONSIBILITY

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

Signed on behalf of Agricultural Bank of China Limited New York Branch:

By: ________________________________

Duly authorised

CAPITALISATION AND INDEBTEDNESS

As at 30 June 2020, the Bank had an authorised share capital of CN350.0 billion divided into 30.7 million H shares of CNY1.00 each and 319.2 million A shares of CNY1.00 each. As at the same date, the Bank had a total of 417,216 shareholders, including 22,654 holders of H shares and 394,562 holders of A shares.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 30 June 2020. This table should be read in conjunction with the unaudited and reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2020, including the notes thereto, incorporated by reference in this Supplemental Offering Circular.

	As at 30 June 2020
	Actual
	(Reviewed) *CNY* *(in millions)*
Debt:[(1)]	
Debt securities issued:	
Bonds	421,873
Other debt instruments	417,517
Total debt	839,390
Equity:	
Ordinary shares	349,983
Other equity instruments	284,878
Capital reserve	173,556
Investment revaluation reserve	34,926
Surplus reserve	175,016
General reserve	311,825
Retained earnings	749,158
Foreign currency translation reserve	2,785
Non-controlling interests	10,882
Total equity	2,093,009
Total capitalisation[(2)]	**2,932,399**

Notes:

(1) As at 30 June 2020, in addition to debt, the Bank had other borrowed funds and liabilities, including borrowings from central banks, due to customers, deposits and placements from banks and other financial institutions, financial liabilities held for trading, derivative financial liabilities, financial assets sold under repurchase agreements and financial liabilities at fair value through profit or loss. See the unaudited and reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2020, including the notes thereto, incorporated by reference into this Supplemental Offering Circular.

On 24 August 2020, the Bank issued Undated Capital Bonds (Second Tranche) of Agricultural Bank of China Limited in China's national inter-bank bond market, following the approval from CBIRC and PBOC. The size of issue of the Undated Capital Bonds was CNY35 billion. The initial coupon rate is 3.48 per cent. during the first five years and will be adjusted every five years.

(2) Total capitalisation equals total debt plus total equity.

There has been no material adverse change in the total capitalisation and indebtedness of the Group, on a consolidated basis, since 30 June 2020.

See also "*Recent Developments – Financial Results*".

USE OF PROCEEDS

The section headed "Use of Proceeds" on page 98 of the Offering Circular shall be deleted in its entirety and replaced with the following:

The net proceeds from the issuance of the 2024 Notes will be used for the Issuer's general corporate purposes.

An amount equal to the net proceeds from the issuance of the 2026 Green Notes will be used for financing, or refinancing, Eligible Green Projects as described in more detail under the section entitled "*Notes Issued as Green Bonds*" of this Supplemental Offering Circular.

The Joint Lead Managers have not separately verified nor will make any assurances as to (i) whether the 2026 Green Notes will meet the investor criteria and expectations regarding environmental impact and sustainability performance of any investor, (ii) whether an amount equal to the net proceeds will be used for financing the Eligible Green Projects or (iii) the characteristics of the Eligible Green Projects, including their environmental and sustainability criteria.

NOTES ISSUED AS GREEN BONDS

General

The Branch intends to allocate an amount equal to the net proceeds from the issuance of the 2026 Green Notes, after deducting fees, commissions and expenses related to issuance of the 2026 Green Notes, to finance and/or refinance, in full or in part, the Eligible Green Projects (as defined below.) The Branch believes that its investment criteria and the process described below are in alignment with the Green Bond Principles, June 2018 (the "**Green Bond Principles 2018**"), which are voluntary process guidelines for the issuance of green bonds developed by a committee of issuers, investors and other participants in the green bond market, with the International Capital Markets Association acting as Secretariat. The Green Bond Principles 2018 have four core components: use of proceeds; process for project evaluation and selection; management of proceeds; and reporting. These components are discussed in more detail below in the context of the 2026 Green Notes.

Use of Proceeds

An amount equal to the net proceeds of the 2026 Green Notes will be allocated to eligible green projects in the following categories ("**Eligible Green Projects**"):

- *Renewable Energy*. Construction, operation and maintenance of power generation plants and manufacturing of equipment and products for renewable energy, such as solar and wind.
- *Clean Transportation*. Urban electrical vehicle transportation systems (including electric vehicles and charging stations for electrical vehicles) and urban mass transit projects (light rail, subway, bus-rapid transport).
- *Sustainable Water and Wastewater Management*. Wastewater treatment and recycling, comprehensive restoration of river basin and construction of water conservation facility.

Projects in support of the following activities shall be explicitly excluded from Eligible Green Projects: all fossil fuel-based power generation projects, including clean coal; all nuclear related projects; biomass power that competes with food sources; and hydro power with installed capacity of over 20 megawatts.

Project Evaluation and Selection

The Branch will follow the procedures below to evaluate and select the Eligible Green Projects:

- *Preliminary Screening*. The Corporate Banking Department of the Branch will propose potential green projects, and conduct a preliminary screening of such potential green projects, in accordance with the use of proceeds criteria discussed above to form a preliminary list of projects that will, along with supporting materials, be submitted to the Branch's Credit Management Department for further review.
- *Review and Approval.* The Credit Management Department of the Branch will review and validate the project materials submitted to it and confirm the Eligible Green Projects list.
- *Update and Maintenance*. The Corporate Banking Department of the Branch will review the Eligible Green Projects list on an annual basis and determine if any changes are necessary (e.g., in case an Eligible Green Project has amortized, been prepaid, sold or otherwise become ineligible). The Corporate Banking Department will also make updates to the Eligible Green Projects list, including replacement, deletion or addition of projects, in accordance with the use of proceeds criteria.

Management of Proceeds

The Branch will establish a separate register to record the source and allocation of proceeds to ensure that an amount equal to the net proceeds of the 2026 Green Notes is allocated to Eligible Green Projects. The register will contain information on the 2026 Green Notes (including the issuance amount, pricing date, and maturity date) and allocation to Eligible Green Projects (including the borrower name, Eligible Green Project category, project description, loan amount, amount of loan drawn, loan maturity, the allocated proceeds and other necessary information).

The Branch will review and update the register on an annual basis. Any proceeds allocated to Eligible Green Projects that have amortized, been prepaid, sold or otherwise become ineligible will be reallocated to other Eligible Green Projects.

Pending the allocation of the full amount equal to the net proceeds of the 2026 Green Notes to Eligible Green Projects, the unallocated portion will be managed according to the Branch's normal liquidity practices, including investments in money market instruments with good credit rating and market liquidity, or temporarily invested in Green, Social and Sustainability (GSS) bonds.

Reporting

The Branch will report on the amount allocated to Eligible Green Projects on an annual basis and, where available, environmental impact. These annual reports (the "**Reports**") will be available on the website of the Branch.

The Reports will include information on the allocation of amounts to each Eligible Green Project category and any balance of unallocated proceeds. Subject to confidentiality, the Report will also include examples of Eligible Green Projects that proceeds have been allocated to. In addition, subject to feasibility and data availability, the Reports will include the relevant environmental impact using, to the extent possible, the following potential impact indicators aggregated for each Eligible Green Project category as well as the relevant calculation methodologies:

Eligible Green Project Categories	***Potential Impact Indicators***
Renewable Energy	Capacity installed (MW) Annual renewable energy generation (MWh/year) Annual avoided greenhouse gas emissions (tCO2e/year)
Clean Transportation	Number of passengers transported annually Number of electrical vehicles financed Kilometres of infrastructure constructed or renovated Annual avoided greenhouse gas emissions (tCO2e/year)
Sustainable Water and Wastewater Management	Amount of water saved/recycled Amount of wastewater treated

The Corporate Banking Department of the Branch will be responsible for collecting relevant information, where available, for each Eligible Green Project.

Post-Issuance External Review

The Branch intends to obtain an annual external review report from a qualified independent external reviewer on the use of proceeds of the 2026 Green Notes and to confirm alignment of the use of proceeds with the Green Bond Principles 2018. The annual external review reports will be published on the website of the Branch.

TAXATION

The section "Taxation" in the Offering Circular shall be supplemented with the following:

Certain U.S. Federal Income Tax Considerations

General

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes by Non-U.S. Holders (as defined below). This summary deals only with initial purchasers of Notes at the "issue price" (the first price at which a substantial amount of Notes are sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering that will hold notes as capital assets for U.S. federal income tax purposes. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors and does not address state, local, non-U.S. or other tax laws.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

As used herein, the term "**Non-U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes: (i) a non-resident alien individual; (ii) a foreign corporation; or (iii) a foreign estate or trust. As used herein, the term "**Non-U.S. Holder**" does not include an individual who is present in the United States for 183 days or more in the taxable year of disposition, a former citizen or former resident of the United States, or any person whose income with respect to a Note is effectively connected with the conduct of a trade or business in the United States (and, if an applicable tax treaty so requires, attributable to a permanent establishment in the United States). If these circumstances apply to you, you should consult your own tax adviser regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

Payments on the Notes

Subject to the discussion below under "*Backup Withholding and Information Reporting*" and the discussion under "*United States FATCA Tax Provisions*", payments of principal and interest (including original issue discount, if any) on the Notes to a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, provided that, in the case of interest, the Non-U.S. Holder: (i) does not own, actually or constructively, 10 per cent. or more of the total combined voting power of all classes of stock of the Bank entitled to vote; (ii) is not a controlled foreign corporation related, directly or indirectly, to the Bank through stock ownership; (iii) is not a bank receiving interest on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; (iv) certifies on a properly executed Internal Revenue Service ("**IRS**") Form W-8BEN or W-8BEN-E (or applicable successor form) under penalties of perjury, that it is not a United States person (as defined under Section 7701(a)(30) of the Code) and (v) such interest is not effectively connected with the conduct of a U.S. trade or business of the Non-U.S. Holder. Payments of interest (including original issue discount, if any) on the Notes that do not qualify for the exception to U.S. federal income and withholding tax discussed above under (i) through (iv) and that are not effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States generally will be subject to 30 per cent. U.S. federal withholding tax, unless a U.S. income tax treaty applies to reduce or eliminate withholding and the Non-U.S. Holder complies with applicable certification requirements.

Sale or Other Taxable Disposition of the Notes

Subject to the discussion below under "*Backup Withholding and Information Reporting*" and the discussion under "*United States FATCA Tax Provisions*", a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on gain realized on a sale, redemption or other taxable disposition of Notes, although any amounts attributable to accrued interest will be treated as described above under "*Payments on the Notes*."

Backup Withholding and Information Reporting

Information returns are required to be filed with the IRS in connection with payments of interest on the Notes to Non-U.S. Holders. Unless a Non-U.S. Holder complies with certification procedures to establish that it is not a U.S. person, information returns may also be filed with the IRS in connection with the proceeds from a sale or other disposition of a Note. A Non-U.S. Holder may be subject to backup withholding on payments on the Notes or on the proceeds from a sale or other disposition of the Notes unless it complies with certification procedures to establish that it is not a U.S. person or otherwise establish an exemption from backup withholding. The certification procedures required to claim the exemption from withholding tax on interest, described above, will avoid backup withholding as well.

Amounts withheld under the backup withholding rules are not additional taxes, and may be refunded or credited against a Non-U.S. Holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

SUBSCRIPTION AND SALE

The sub-section headed "Subscription and Sale – Selling Restrictions – European Economic Area – Prohibition of Sales to EEA and UK Retail Investors" on page 169 of the Offering Circular of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**Prohibition of Sales to EEA Retail Investors**

Each Joint Lead Manager has represented and agreed 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 the Offering Circular as completed by the Pricing Supplements in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) 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.

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager has represented and agreed 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 the Offering Circular as completed by the Pricing Supplements in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or

(b) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA."

GENERAL INFORMATION

The sub-section headed "General Information – Listing" on page 173 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**Listing**: Application will made to the HKSE for permission to deal in, and for listing of, the Notes, issued by way of debt issues to Professional Investors only, which are agreed at the time of issue to be so listed on the HKSE. There can be no assurance that the application will be approved."

The sub-section headed "General Information – Authorisations" on page 173 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**Authorisations**: The Bank has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment and update of the Programme and the issue of this Supplemental Offering Circular. The establishment and the update of the Programme have been duly authorised by the Bank on 18 June 2014. The Issuer has obtained all necessary consents, approvals and authorisations for the issue of the Notes under the Programme."

The sub-section headed "General Information – No Material Adverse Change" on page 173 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**No Material Adverse Change**: Except as disclosed in this Supplemental Offering Circular, the Offering Circular and the Pricing Supplements, there has been no significant change in the financial or trading position of the Bank, Issuer or of the Group since 31 December 2019 and no material adverse change in the financial position or prospects of the Bank, the Issuer or of the Group since 31 December 2019."

The sub-section headed "General Information – Available Documents" on page 174 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**Available Documents**: the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection upon prior written request and satisfactory proof of holding at the offices of the Issuer and/or the Fiscal Agent:

(a) the Memorandum and Articles of Association of the Bank;

(b) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019 (in each case together with the audit reports in connection therewith);

(c) the unaudited and reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2020 (together with the review report in connection therewith);

(d) the unaudited and unreviewed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2020;

(e) the Fiscal Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Deed of Covenant;

(f) a copy of this Supplemental Offering Circular and the Offering Circular; and

(g) the Pricing Supplements (save that such Pricing Supplements will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of the Notes and identity)."

The sub-section headed "General Information – Legal Entity Identifier" on page 174 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**Legal Entity Identifier**: The legal entity identifier of the Issuer is 549300E7TSGLCOVSY746."

ISSUER

Principal Office
Agricultural Bank of China Limited New York Branch
277 Park Avenue
New York, NY 10172
United States

AUDITORS OF THE BANK

PricewaterhouseCoopers
22/F Prince's Building
Central, Hong Kong

FISCAL AGENT AND PAYING AGENT

Agricultural Bank of China Limited Hong Kong Branch
25/F Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

REGISTRAR AND TRANSFER AGENT

Agricultural Bank of China Limited Hong Kong Branch
25/F Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

GREEN STRUCTURING ADVISOR

Crédit Agricole Corporate and Investment Bank
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88 Queensway
Hong Kong

Merrill Lynch (Asia Pacific) Limited
55/F Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

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To the Issuer
as to New York law and U.S. federal securities law

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To the Joint Lead Managers
as to PRC law

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World Financial Center 1
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Chaoyang District, Beijing 100020**,**
P.R. China

To the Joint Lead Managers
as to English law

Linklaters
11 Floor Alexandra House
Chater Road
Hong Kong

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND ARE NOT U.S. PERSONS

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing 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 any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")). THIS OFFERING IS MADE SOLELY TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THIS OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited 農銀國際融資有限公司 and Standard Chartered Bank (the "**Arrangers**"), BNP Paribas, Citigroup Global Markets Limited, Commonwealth Bank of Australia, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, First Abu Dhabi Bank PJSC, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, Wells Fargo Securities International Limited and Westpac Banking Corporation (together with the Arrangers, the "**Dealers**") and Agricultural Bank of China Limited or such branch of Agricultural Bank of China Limited (including Agricultural Bank of China Limited Hong Kong Branch) as specified in the applicable Pricing Supplement (each an "**Issuer**") (1) that you and any customers you represent are and that the electronic mail address that you gave the Issuer and to which this e-mail has been delivered is not located in the United States, (2) that you are not a U.S. person, or acting to, the account or benefit of a U.S. person (in each case as defined in Regulation S) and (3) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this 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 or disclose the contents of this Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

This Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Arrangers, the Dealers or the Agents (as defined below), nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

中国农业银行
AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED

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

U.S.$15,000,000,000
Medium Term Note Programme

Under the U.S.$15,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Agricultural Bank of China Limited (the "**Bank**") and, in relation to any issue of Notes under the Programme, the Bank and the relevant issuing branch of the Bank located outside the PRC (including Agricultural Bank of China Limited Hong Kong Branch) specified as an issuer in the applicable Pricing Supplement (each an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Notes (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$15,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of an Amended and Restated Dealer Agreement dated 24 August 2020 (the "**Dealer Agreement**").

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the Issuer (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 for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Where applicable for a relevant tranche of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted to the Bank pursuant to the Notice of the National Development and Reform Commission on Promoting the Reform of Managing the External Debt Issuance by Enterprises with a Record-Filing and Registration System (Fa Gai Wai Zi [2015] No. 2044)(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, as amended and supplemented by any implementation or guidance rules or policies (including but not limited to a pilot programme) as issued by the NDRC from time to time (the "**NDRC Circular**"). Alternatively, separate pre-issue registration of a particular tranche of Notes may be completed by the Bank as set forth in the relevant Pricing Supplement. After the issuance of such relevant tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the time period as required by the NDRC.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 17.

Application will be made to The Stock Exchange of Hong Kong Limited (the "**HKSE**") 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 Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (together, **Professional Investors**)) only during the 12-month period from the date of this document on the HKSE. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The HKSE 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 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 the HKSE 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.

Each Series (as defined in "*Summary of the Programme*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**" together with the temporary Global Note, (the "**Global Notes**")). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each holder of the Notes ("**Noteholder**") holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a permanent global certificate (each a "**Global Certificate**") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking SA ("**Clearstream, Luxembourg**") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**CMU**") and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg or CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the United States Securities Act of 1933 (the "**Securities Act**")) or, in the case of Bearer Notes, offered, sold or delivered in the United States, or to, or for the account or benefit of, United States persons (as defined in the Internal Revenue Code). For a description of certain restrictions on transfer, see "*Subscription and Sale*".

In addition, 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 (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 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (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.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein (the "**Conditions**"), in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Programme is expected to be rated "(P)A1" by Moody's Investors Service Hong Kong Ltd. ("**Moody's**") , "A" by Fitch Ratings Limited ("**Fitch**") and "A" by Standard & Poor's Ratings Services ("**S&P**"), a division of the McGraw-Hill Companies Inc. These ratings are only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arrangers and Dealers

Agricultural Bank of China Limited Hong Kong Branch | **ABC International** | **Standard Chartered Bank**

Dealers

BNP PARIBAS | **Citigroup**

Commonwealth Bank of Australia | **Crédit Agricole CIB** | **DBS Bank Ltd.**

Deutsche Bank | **First Abu Dhabi Bank** | **Goldman Sachs (Asia) L.L.C.**

HSBC | **J.P. Morgan** | **BofA Securities**

Mizuho Securities | **Wells Fargo Securities** | **Westpac Banking Corporation**

Offering Circular dated 24 August 2020

IMPORTANT NOTICE

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Notes. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference").

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arrangers or the Dealers (as defined in "*Summary of the Programme*") or the Agents (as defined in "*Terms and Conditions of the Notes*") (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by the Issuer, any Dealer, any Arranger or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. 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, any Dealer, any Arranger or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Bank and its consolidated subsidiaries (together, the "**Group**") since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

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 EEA or in 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 MiFID II; (ii) a customer within the meaning of 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. Consequently no key information document required by 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 subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the 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 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 Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe any such restriction.

The Notes are being offered and sold to non-U.S. persons outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see "*Subscription and Sale*".

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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. None of the Issuer, any Arranger, any Dealer or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the Issuer, the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) represents that this Offering Circular 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, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the Issuer, the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) which is intended to permit a public offering of any Notes or distribution of this Offering Circular 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 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 Notes in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Japan, Australia and New Zealand. See "*Subscription and Sale*".

To the fullest extent permitted by law, none of the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by an Arranger or a Dealer or any Agent or on its behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes. The Arrangers, the Dealers and the Agents (and any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accordingly disclaim 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 of the Issuer or the Group 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 Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular or any financial statements of the Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) undertakes to review the financial condition or affairs of the Issuer or 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 Arrangers, the Dealers or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them).

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purposes of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular 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.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Arrangers, the Dealers and their respective subsidiaries and 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, corporate financing, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Arrangers, the Dealers and their respective subsidiaries and affiliates may have, from time to time, performed and may in the future perform, various Banking Services or Transactions with the Issuer, or its subsidiaries and affiliates, for which they have received, or will receive, customary fees and expenses.

In the ordinary course of their various business activities, the Arrangers, the Dealers and their respective subsidiaries and affiliates may 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 such investment and securities activities may involve securities and/or instruments of the Issuer and its subsidiaries or affiliates. Certain of the

Arrangers, the Dealers and their respective subsidiaries and affiliates may from time to time also enter into swap and other derivative transactions with the Issuer and its subsidiaries or affiliates. The Arrangers, the Dealers and their respective subsidiaries and affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with each Tranche of Notes issued under the Programme, the Arrangers, the Dealers or certain of their subsidiaries or affiliates, or the Issuer and its subsidiaries and affiliates, may act as investors and place orders, purchase and receive allocations and may trade the Notes for their own account and such orders, purchases, allocations or trade 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 of the relevant Tranche of Notes. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the Arrangers, the Dealers and/or their respective subsidiaries, or to the Issuer and its subsidiaries and affiliates, 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 applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Issuer does not and the Arrangers, the Dealers and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Notification under Section 309B(1)(c) under the SFA: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded 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).

In connection with any Tranche of Notes, one or more of the Dealers (or persons acting on their behalf) may act as the stabilisation manager(s) (the "Stabilisation Manager(s)"). The identity of the Stabilisation Manager(s) (if any) will be disclosed in the relevant Pricing Supplement. In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (or persons 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 market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the closing date of the relevant Tranche of Notes. However, there is no obligation on such Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) to do this. Any stabilisation action 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 cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche

of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

In the Offering Circular, unless otherwise specified, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "**PRC**" or "**China**" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, references to "**U.S.$**", "**USD**" or "**U.S. dollars**" are to the lawful currency of the United States of America, references to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC, and references to "**Hong Kong dollar**" or "**HK$**" are to the lawful currency of Hong Kong.

In this Offering Circular, unless otherwise specified, references to:

- "**the Bank**" and "**the Group**" refer to either or both of Agricultural Bank of China Limited and the Bank's predecessor, Agricultural Bank of China, as applicable, and, except as the context otherwise requires, the subsidiaries of Agricultural Bank of China Limited and of the Bank's predecessor, Agricultural Bank of China;

- the "**branch outlets**" include the head office, branches and outlets and other establishments of the Bank;

- a "**business day**" is a day that is not Saturday, Sunday or a public holiday in Hong Kong; and

- the terms "**associate**", "**subsidiary**" and "**substantial shareholder**" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, in this Offering Circular, unless otherwise indicated, the terms "loans and advances to customers", "loans" and "loans to customers" are used synonymously.

In this Offering Circular, unless otherwise indicated, the discussions on loans are based on the Bank's gross loans and advances to customers, before taking into account the related allowance for impairment losses, rather than its net loans to customers. The Bank's loans and advances to customers are reported net of the allowance for impairment losses on its consolidated balance sheet.

The growth rates with respect to the business and financial data of the Bank presented in this Offering Circular are calculated based on amounts in millions of Renminbi.

Presentation of Financial Information

This Offering Circular contains the audited consolidated financial statements of the Bank as at and for each of the years ended 31 December 2018 and 2019. The audited consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**").

In addition, this Offering Circular contains the unaudited financial information of the Bank as at and for the three months ended 31 March 2020 (which include the comparative financial information as at and for the three months ended 31 March 2019) (the "**2020 First Quarter Financial Statements**"), which was published by the board of directors of the Bank on 28 April 2020.

The 2020 First Quarter Financial Statements included in this Offering Circular have neither been audited nor reviewed by PricewaterhouseCoopers.

The 2020 First Quarter Financial Statements were prepared and presented in accordance with the IFRS. However, the 2020 First Quarter Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The 2020 First Quarter Financial Statements should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2020.

None of the Arrangers, the Dealers or the Agents nor any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them make any representation, or warranty, express or implied, regarding the sufficiency of the Bank's 2020 First Quarter Financial Statements for an assessment of the Bank's financial condition, results of operations and results.

As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in Note II 1.2 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2017 and Note II 2 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has developed the expected loss model and analysed changes to the credit risk of financial assets, and performed analysis of business models and cash flow characteristics in the contract terms of its investments and other financial instruments, and completed the classification of its existing financial assets under IFRS 9.

The classification and measurement and impairment requirements of IFRS 9 are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Bank does not restate comparatives.

Due to the impact of classification, measurement and impairment, the investment revaluation reserve and retained earnings of the Bank were increased by RMB9,891 million and decreased by RMB36,457 million as at 1 January 2018, respectively. For details please refer to Note II 2 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

The Bank has adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in Note II 1.1 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2019. According to the requirements of IFRS 16, the Group recognised the right-of-use assets at the commencement date, and recognised the lease liabilities at the present value of the outstanding lease payments. On 1 January 2019, the Bank recognised the right-of-use assets amounted RMB11,095 million and lease liabilities amounted RMB10,428 million. The implementation of IFRS 16 does not have any impact on net asset of the Group as at 1 January 2019. As permitted by the transitional provisions of IFRS 16, the Bank elected not to restate comparative figures.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Bank refers to the consolidated data of the Group.

In this Offering Circular, because certain amounts have been rounded, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

Documents Incorporated by Reference

The Issuer hereby incorporates by reference (i) each Pricing Supplement, (ii) the most recently published audited consolidated annual financial statements and the most recently published unaudited consolidated interim financial statements of the Bank published from time to time after the date of this Offering Circular in each case together with any audit or review reports prepared in connection therewith, and (iii) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

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 HKSE. The quarterly interim reports have not been and will not be audited or reviewed by the Bank's independent auditors and were and will be prepared under IFRS. The quarterly interim reports 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 operation. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Issuer and of the Paying Agents set out at the end of this Offering Circular.

Supplemental Offering Circular

The Issuer has given an undertaking to the Arrangers and the Dealers that if it has notified the Arrangers or the Dealers in writing that it intends to issue Notes under the Programme for the time being, and if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or of the rights attaching to the Notes, it shall (i) prepare and publish an amendment or supplement to the Offering Circular, (ii) advise the Arrangers and the Dealers promptly of any proposal to amend or replace the Offering Circular, (iii) advise the Arrangers and Dealers promptly of any proposal to supplement the Offering Circular and (iv) provide the Arrangers and the Dealers with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

Forward-Looking Statements

Certain statements under "*Risk Factors*", "*Business*" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or the negative thereof, or expressions identify forward-looking statements.

In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Accountholder"	each person who is for the time being shown in the records of the CMU operator as the holder of a particular principal amount of the Notes
"Articles of Association"	Articles of Association of the Bank, as constituted and amended from time to time. Except where the context otherwise requires, the Articles of Association refers to the Articles of Association of the Bank approved by CBIRC on 31 December 2012
"ATM"	Automatic Teller Machine
"Basel I"	1988 Basel Capital Accord
"Basel II"	the revised Basel Capital Framework promulgated in June 2004
"Basel III"	the newest Basel Capital Accord promulgated in December 2010
"Big Four"	Agricultural Bank of China, Bank of China, China Construction Bank and Industrial and Commercial Bank of China
"Capital Adequacy Regulations"	the Administrative Measures on Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), as promulgated by the CBIRC on 23 February 2004, effective as of 1 March 2004 and amended on 3 July 2007 (repealed and replaced by the Capital Management Regulations on 1 January 2013)
"Capital Management Regulations"	the Provisional Administrative Measures on Capital Management of Commercial Banks (商業銀行資本管理辦法(試行)), as promulgated by the CBIRC on 7 June 2012, effective as of 1 January 2013
"CAGR"	compound annual growth rate
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
"China" or "PRC"	the People's Republic of China, but for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to "China" and the "PRC" do not include Hong Kong, Macau and Taiwan
"CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會)
"CMU"	Central Moneymarkets Unit Service
"County Area" or "County Areas"	areas designated as counties or county-level cities under China's administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include economically more developed county centres, towns and the vast rural areas within their jurisdictions

"County Area Banking Business" or "Sannong Banking Business"	a broad range of financial products and services the Bank provides to customers in the County Areas through the Bank's branch outlets located in counties and county-level cities in the PRC. The Bank refers to such banking business as the "County Area Banking Business" or "Sannong Banking Business"(三農金融業務), which are used interchangeably throughout this Offering Circular
"CSRC"	China Securities Regulatory Commission(中國證券監督管理委員會)
"EEA"	European Economic Area
"Fiscal Agent"	Agricultural Bank of China Limited Hong Kong Branch
"FDI"	foreign direct investment
"GDP"	gross domestic product
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HKMA"	Hong Kong Monetary Authority
"HKSE"	The Stock Exchange of Hong Kong Limited
"Huijin"	Central Huijin Investment Ltd(中央滙金投資有限責任公司), a state-owned investment company incorporated under the laws of the PRC
"IAS 34"	the International Accounting Standard 34 "Interim Financial Reporting" and its interpretation by the IASB
"IAS 39"	the International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" and its interpretations by the IASB
"IASB"	the International Accounting Standards Board
"IFRIC"	the International Financial Reporting Interpretations Committee
"IFRS"	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
"Internal Revenue Code"	the U.S. Internal Revenue Code of 1986 and the regulations thereunder
"Issuer"	Agricultural Bank of China Limited and, in relation to any issue of Notes under the Programme, the relevant issuing branch of the Bank located outside the PRC (including Agricultural Bank of China Limited Hong Kong Branch) specified as the Issuer in the applicable Pricing Supplement
"Large Commercial Banks"	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank and Industrial and Commercial Bank of China
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Macau"	the Macau Special Administrative Region of the PRC

"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"NAO"	National Audit Office of the PRC (中華人民共和國審計署)
"NBSC"	National Bureau of Statistics of China (中華人民共和國國家統計局)
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"National Joint Stock Commercial Banks"	China CITIC Bank, China Everbright Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Bank, Evergrowing Bank, Zheshang Bank and Bohai Bank
"non-performing loans"	identified impaired loans and advances
"Notes"	Notes issued under the U.S.$15,000,000,000 Medium Note Programme
"OFAC"	the Office of Foreign Assets Control of the U.S. Department of the Treasury
"PBOC"	People's Bank of China (中國人民銀行)
"POS"	point of sale, a checkout counter in a shop or any location where a transaction occurs
"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises promulgated by the MOF on 15 February 2006 and its supplementary regulations
"QDIIs"	qualified domestic institutional investors in the PRC, which are licensed by the CSRC to invest in foreign securities markets
"QFIIs"	qualified foreign institutional investors licensed by the CSRC to invest in Renminbi-denominated shares listed on China's domestic securities exchanges
"Regulation S"	Regulation S under the U.S. Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

"Sannong"	a short-hand reference to the Chinese pronunciation of the phrase "agriculture, rural areas and farmers"(農業、農村和農民). The terminology "Sannong"(三農) was initially created to refer to the three rural development issues in China (specifically, agriculture, rural areas and farmers) and has become an expression widely adopted by the policymakers in China. Throughout this Offering Circular, the Bank uses "Sannong" to refer to the PRC government's policies or vision, as applicable, aiming to promote agricultural industry, rural development and the welfare of China's farmers. The current economic development of China's County Areas directly benefits from the PRC government's "Sannong" policies
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council(國務院國有資產監督管理委員會)
"SAT"	State Administration of Taxation of the PRC(中華人民共和國國家稅務總局)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"SHIBOR"	Shanghai Interbank Offered Rate, a daily reference rate published by the National Interbank Funding Centre
"SME" or "SMEs"	small- and medium-sized enterprises
"SSE"	The Shanghai Stock Exchange
"SSF"	National Council for Social Security Fund of the PRC(全國社會保障基金理事會)
"State Council"	the PRC State Council(中華人民共和國國務院)
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"Urban Area" or "Urban Areas"	the rest of China other than the County Areas
"U.S. Securities Act" or "Securities Act"	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"WTO"	World Trade Organisation

In this Offering Circular, the Bank defines the geographical regions of China to which the Bank refers for the purpose of describing the Bank's branch network and presenting certain results of operations and financial condition as follows:

Geographical regions	Branches	
"Yangtze River Delta"	• Shanghai Municipality	• Zhejiang Province
	• Jiangsu Province	• City of Ningbo
"Pearl River Delta"	• Guangdong Province	• Fujian Province
	• City of Shenzhen	• City of Xiamen
"Bohai Rim"	• Beijing Municipality	• Shandong Province
	• Tianjin Municipality	• City of Qingdao
	• Hebei Province	
"Central China"	• Shanxi Province	• Jiangxi Province
	• Hubei Province	• Hainan Province
	• Henan Province	• Anhui Province
	• Hunan Province	
"Northeastern China"	• Liaoning Province	• Jilin Province
	• Heilongjiang Province	• City of Dalian
"Western China"	• Chongqing Municipality	• Xinjiang Autonomous Region
	• Sichuan Province	• The Xinjiang Production and Construction Corps
	• Guizhou Province	• Tibet Autonomous Region
	• Yunnan Province	• Inner Mongolia Autonomous Region
	• Shaanxi Province	• Guangxi Autonomous Region
	• Gansu Province	
	• Qinghai Province	
	• Ningxia Autonomous Region	

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meaning in this summary.

The Issuer	Agricultural Bank of China Limited and, in relation to any issue of Notes under the Programme, the relevant issuing branch of the Bank located outside the PRC (including Agricultural Bank of China Limited Hong Kong Branch) specified as the Issuer in the applicable Pricing Supplement.
Description	Euro Medium Term Note Programme.
Size.	Up to U.S.$15,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement. The Dealer Agreement provides for the U.S.$ equivalent of any Note denominated in another currency to be determined on or around the date agreement is reached to issue those Notes or, if the agreement date is not a date that commercial banks and foreign exchange markets are open for general business in London, on the preceding day on which commercial banks and foreign exchange markets are open for general business in London.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "*Risk factors*" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk factors*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Arrangers	Agricultural Bank of China Limited Hong Kong Branch ABCI Capital Limited 農銀國際融資有限公司 Standard Chartered Bank

Dealers	Agricultural Bank of China Limited Hong Kong Branch ABCI Capital Limited 農銀國際融資有限公司 Standard Chartered Bank BNP Paribas Citigroup Global Markets Limited Commonwealth Bank of Australia Crédit Agricole Corporate and Investment Bank DBS Bank Ltd. Deutsche Bank AG, Singapore Branch First Abu Dhabi Bank PJSC Goldman Sachs (Asia) L.L.C. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch (Asia Pacific) Limited Mizuho Securities Asia Limited Wells Fargo Securities International Limited Westpac Banking Corporation The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent	Agricultural Bank of China Limited Hong Kong Branch.
Transfer Agents	Agricultural Bank of China Limited Hong Kong Branch.
Registrar	Agricultural Bank of China Limited Hong Kong Branch.
CMU Lodging and Paying Agent	Agricultural Bank of China Limited Hong Kong Branch.
Method of Issue	The Notes may be issued 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, nominal amount of the Tranche and the timing for notification to the NDRC, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a "**Pricing Supplement**").

Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a temporary Global Note or a permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream, Luxembourg and/or as the case may be, the CMU and/or any other relevant clearing system. Each temporary Global Note will be exchangeable for a permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a temporary Global Note or receipt of any payment of interest in respect of a temporary Global Note. Each permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate.
Clearing Systems	The CMU, Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the HKMA as operator of the CMU or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity, including for the avoidance of doubt, undated perpetual Notes with no fixed maturity.
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and 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 Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended, supplemented or replaced; or (ii) by reference to LIBOR or EURIBOR or HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. Interest periods will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
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 may be specified in the relevant Pricing Supplement.
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 as may be specified in the relevant Pricing Supplement.

Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and 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 Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments. . .	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes.	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of the Notes.	The Notes issued by the Issuer will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer other than any such obligations as are preferred by law, all as further described in Condition 3.
Negative Pledge	See "*Terms and Conditions of the Notes – Negative Pledge*".
Events of Default.	See "*Terms and Conditions of the Notes – Events of Default*".
Cross Default.	See the relevant sub-condition under "*Terms and Conditions of the Notes – Events of Default*".
Ratings	The Programme is expected to be rated "(P)A1" by Moody's, "A" by Fitch and "A" by S&P. 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, reduction or withdrawal at any time by the assigning rating agency.
Early Redemption	Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of a Tax Jurisdiction, subject to customary exceptions, all as described in "*Terms and Conditions of the Notes – Taxation*".
Governing Law and Jurisdiction	English law, with submission to the jurisdiction of the courts of England.
Listing	Application may be made to list the Notes issued by way of debt issues to Professional Investors only under the Programme on the HKSE. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. 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).
Legal Entity Identifier	549300E7TSGLCOVSY746
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the EEA, the United Kingdom, Hong Kong, Singapore, the PRC, Japan, Australia and New Zealand, see "*Subscription and Sale*" below.

SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary historical consolidated financial information of the Bank as at and for the years ended 31 December 2017, 2018 and 2019 as set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019, which are included elsewhere in this Offering Circular. The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 (which include the comparative financial information as at and for the year ended 31 December 2017) and 2019 were prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with International Standards on Auditing.

*In addition, this Offering Circular contains the unaudited consolidated financial statements of the Bank as at and for the three months ended 31 March 2020 (which include the comparative financial information as at and for the three months ended 31 March 2019) (the "**2020 First Quarter Financial Statements**"), which was published by the board of directors of the Bank on 28 April 2020.*

The 2020 First Quarter Financial Statements included in this Offering Circular have neither been audited nor reviewed by PricewaterhouseCoopers.

The 2020 First Quarter Financial Statements were prepared and presented in accordance with the IFRS. However, the 2020 First Quarter Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The 2020 First Quarter Financial Statements should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2020.

None of the Arrangers, the Dealers or the Agents nor any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them make any representation, or warranty, express or implied, regarding the sufficiency of the Bank's 2020 First Quarter Financial Statements for an assessment of the Bank's financial condition, results of operations and results.

As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in Note II 1.2 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2017 and Note II 2 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has developed the expected loss model and analysed changes to the credit risk of financial assets, and performed analysis of business models and cash flow characteristics in the contract terms of its investments and other financial instruments, and completed the classification of its existing financial assets under IFRS 9.

The classification and measurement and impairment requirements of IFRS 9 are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Bank does not restate comparatives.

Due to the impact of classification, measurement and impairment, the investment revaluation reserve and retained earnings of the Bank were increased by RMB9,891 million and decreased by RMB36,457 million as at 1 January 2018, respectively. For details please refer to Note II 2 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

The Bank has adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in Note II 1.1 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2019. According to the requirements of IFRS 16, the Group recognised the right-of-use assets at the commencement date, and recognised the lease liabilities at the present value of the outstanding lease payments. On 1 January 2019, the Bank recognised the right-of-use assets amounted RMB11,095 million and lease liabilities amounted RMB10,428 million. The implementation of IFRS 16 does not have any impact on net asset of the Group as at 1 January 2019. As permitted by the transitional provisions of IFRS 16, the Bank elected not to restate comparative figures.

Summary historical financial information should be read in conjunction with the Bank's audited consolidated financial statements and the notes thereto, which are included from page F-2 of this Offering Circular. The historical results do not necessarily indicate the expected results for any future period of the Bank.

Summary historical consolidated income statements

	For the year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	(Audited) *CNY* *(in millions)*	*(Audited)* *CNY* *(in millions)*	*(Audited)* *CNY* *(in millions)*	*(Unaudited)* *CNY* *(in millions)*	*(Unaudited)* *CNY* *(in millions)*
Interest income	713,699	784,724	859,141	208,463	224,268
Interest expense	(271,769)	(306,964)	(372,270)	(89,350)	(94,609)
Net interest income	441,930	477,760	486,871	119,113	129,659
Fee and commission income.	85,257	91,525	103,011	32,350	33,989
Fee and commission expense	(12,354)	(13,384)	(16,085)	(3,132)	(2,840)
Net fee and commission Income	72,903	78,141	86,926	29,218	31,149
Net trading (loss)/gain	(8,829)	16,069	19,067	6,915	6,756
Net (loss)/gain on financial investments	(3,108)	8,460	5,793	850	736
Net gain on derecognition of financial assets measured at amortized cost	–	30	–	–	–
Other operating income	40,002	22,097	30,693	17,510	18,615
Operating income	542,898	602,557	629,350	173,606	186,915
Operating expenses	(205,268)	(213,963)	(224,096)	(56,492)	(60,653)
Credit impairment losses	–	(136,647)	(138,605)	(42,566)	(44,852)
Impairment losses on assets	(98,166)	–	–	–	–
Impairment losses on other assets	–	(251)	(118)	71	(1)
Operating profit	239,464	251,696	266,531	74,619	81,409
Share of result of associate and joint ventures	14	(22)	45	45	(22)
Profit before tax	239,478	251,674	266,576	74,664	81,387
Income tax expense	(46,345)	(49,043)	(53,652)	(12,543)	(17,022)
Profit for the year	193,133	202,631	212,924	62,121	64,365
Attributable to:					
– Equity holders of the Bank	192,962	202,783	212,098	61,251	64,187
– Non-controlling interests	171	(152)	826	870	178
	193,133	202,631	212,924	62,121	64,365
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in CNY per share) – Basic and diluted	0.58	0.59	0.59	0.17	0.18

Summary historical consolidated statements of financial position

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	(Audited) CNY (in millions)	*(Audited) CNY (in millions)*	*(Audited) CNY (in millions)*	*(Unaudited) CNY (in millions)*
Assets				
Cash and balances with central bank	2,896,619	2,805,107	2,699,895	2,537,689
Deposits with banks and other financial institution	130,245	109,728	235,742	380,128
Precious metals	32,008	21,268	30,063	191,634
Placements with and loans to banks and other financial institutions	505,269	552,013	523,183	487,148
Derivative financial assets	28,284	36,944	24,944	28,611
Financial assets held under resale agreements	540,386	371,001	708,551	1,025,276
Loans and advances to customers	10,316,311	11,461,542	12,819,610	13,567,860
Financial assets at fair value through profit or loss	–	643,245	801,361	826,992
Debt instrument investments at amortized cost	–	4,503,698	4,946,741	4,981,259
Other debt instrument and other equity investments at fair value through other comprehensive income	–	1,738,132	1,674,828	1,748,614
Financial assets held for trading	194,640	–	–	–
Financial assets designated at fair value through profit and loss	383,325	–	–	–
Available-for-sale financial assets	1,426,420	–	–	–
Held-to-maturity investments	3,489,135	–	–	–
Debt instruments classified as receivables	659,223	–	–	–
Investments in associates and joint ventures	227	4,005	6,672	6,651
Property and equipment	155,258	152,452	152,484	149,744
Goodwill	1,381	1,381	1,381	1,381
Deferred tax assets	97,751	113,293	120,952	116,634
Other assets	196,900	95,662	131,881	176,767
Total assets	21,053,382	22,609,471	24,878,288	26,226,388
Liabilities and Shareholders' Equity				
Borrowings from central banks	465,947	561,195	608,536	699,833
Deposits from banks and other financial institutions	974,730	1,124,322	1,503,909	1,630,149
Placements from banks and other financial institutions	280,061	325,541	325,363	326,126
Financial liabilities at fair value through profit or loss	391,772	286,303	330,627	336,486
Derivative financial liabilities	30,872	34,554	29,548	37,257
Financial assets sold under repurchase agreement	319,789	157,101	53,197	35,546
Due to customers	16,194,279	17,346,290	18,542,861	19,539,807
Debt securities issued	475,017	780,673	1,108,212	1,144,583
Deferred tax liabilities	87	139	520	549
Other liabilities	491,431	318,566	415,753	443,215
Total liabilities	19,623,985	20,934,684	22,918,526	24,193,551
Ordinary shares	324,794	349,983	349,983	349,983
Other equity instruments	–	79,899	199,886	199,886
Preference shares	79,899	79,899	79,899	79,899
Perpetual bonds	–	–	119,987	119,987
Capital reserve	98,773	173,556	173,556	173,556
Investment revaluation reserve	(19,690)	18,992	29,684	39,978
Surplus reserve	134,348	154,257	174,910	174,932
General reserve	230,750	239,190	277,016	277,168
Retained earnings	577,573	652,944	741,101	802,914
Foreign currency translation reserve	(32)	1,473	2,219	2,585
Equity attributable to equity holders of the Bank	1,426,415	1,670,294	1,948,355	2,021,002
Non-controlling interests	2,982	4,493	11,407	11,835
Total equity	1,429,397	1,674,787	1,959,762	2,032,837
Total equity and liabilities	**21,053,382**	**22,609,471**	**24,878,288**	**26,226,388**

Capital Ratio Data for the Bank

Capital Adequacy Indicators

	As at 31 December		
	2017	**2018**	**2019**
	(Audited)	*(Audited)*	*(Audited)*
Common equity tier 1 capital adequacy ratio[1]	10.63%	11.55%	11.24%
Tier 1 capital adequacy ratio	11.26%	12.13%	12.53%
Capital adequacy ratio	13.74%	15.12%	16.13%
Asset Quality Indicators			
Non-performing loan ratio[2]	1.81%	1.59%	1.40%
Allowance to non-performing loans[3]	208.37%	252.18%	288.75%
Allowance to loan ratio[4]	3.77%	4.02%	4.06%

Notes:

(1) Figures were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations.

(2) Calculated by dividing balance of non-performing loans (excluding accrued interest) by the balance of total loans and advances to customers (excluding accrued interest).

(3) Calculated by dividing the balance of allowance for impairment losses on loans (excluding accrued interest) by the balance of non-performing loans (excluding accrued interest), among which, the balance of allowance for impairment losses on loans (excluding accrued interest) does not include the allowance for impairment losses on bill and forfeiting recognized in other comprehensive income.

(4) Calculated by dividing the balance of allowance for impairment losses on loans (excluding accrued interest) by the balance of total loans and advances to customers (excluding accrued interest), among which, the balance of allowance for impairment losses on loans (excluding accrued interest) does not include the allowance for impairment losses on bills and forfeiting recognized in other comprehensive income.

Other financial indicators

		Regulatory standard	As at 31 December		
			2017	**2018**	**2019**
		(Audited)	*(Audited)*	*(Audited)*	
Liquidity Ratio (%)[1]	Renminbi	≥25	50.95	55.17	57.74
	Foreign Currency	≥25	106.74	101.77	112.07
Percentage of loans to the largest single customer (%)[2]		≤10	7.26	5.53	4.68
Percentage of loans to top ten customers (%)[3]			18.27	15.25	13.83
Loan migration ration (%)[4]	Normal		2.13	1.72	1.54
	Special mention		18.70	16.93	15.90
	Substandard		71.48	61.48	47.10
	Doubtful		6.94	8.91	8.82

Notes:

(1) Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBIRC.

(2) Calculated by dividing loans to the largest single customer (excluding accrued interest) by net capital.

(3) Calculated by dividing loans to top ten customers (excluding accrued interest) by net capital.

(4) Calculated in accordance with the relevant regulations of the CBIRC, reflecting domestic data only.

Operating income by business

	For the year ended 31 December		
	2017	2018	2019
	(Audited) CNY (in millions)	*(Audited)* CNY (in millions)	*(Audited)* CNY (in millions)
Corporate banking	249,333	274,658	271,719
Retail banking	205,930	233,801	239,963
Treasury operations	56,590	65,628	79,114
Other operations	31,045	28,470	38,554
Total	542,898	602,557	629,350

Key financial indicators of County Area Banking Business

	As at and for the year ended 31 December		
	2017	2018	2019
	(Audited)	*(Audited)*	*(Audited)*
Average yield of loans (%)	4.55	4.60	4.59
Average cost of deposits (%)	1.28	1.30	1.51
Net fee and commission income to operating income (%)	14.19	13.31	14.61
Cost-to-income ratio (%)[(1)]	39.18	37.25	37.37
Loan-to-deposit ratio (%)	51.60	54.28	57.20
Non-performing loan ratio (%)	2.17	2.08	1.58
Allowance to non-performing loans (%)	211.30	252.94	315.18
Allowance to loan ratio (%)	4.57	5.25	4.97

Notes:

(1) Calculated by dividing operating and administrative expenses by operating income under CASs, which is consistent with the corresponding figures as stated in the financial report of the Bank prepared in accordance with CASs.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The Bank's business, financial condition or results of operations could be materially adversely affected by any of these risks. The Bank believes that the following factors may affect the Bank's ability to fulfil its obligations under the Notes. Additional considerations 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.

Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Notes are described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but its inability to repay principal, pay interest (if any) or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and it does not represent that the statements below regarding the risks of holding the Notes are exhaustive.

Risks relating to the Bank's loan portfolio

The Bank has a concentration of loans to certain regions, industries and customers, and if the conditions of these regions or these industries, or the financial conditions of these customers deteriorate significantly, its asset quality, financial condition and results of operations may be materially and adversely affected.

As at 31 December 2019, 40.9 per cent. of the Bank's total loans and 46.7 per cent. of its non-performing loans originated in Western, Central and North-eastern China. Although these regions may currently benefit economically from favourable government policies, any of these economic policies may change in the future and the implementation of such policies may not be as effective as the Bank anticipates, nor can the Bank control or influence the change of such policies in these regions. A significant economic downturn in any of these regions, which may be caused by, among others, the recent outbreak of the coronavirus disease 2019 ("COVID-19") and the global uncertainty resulting from the exit of the United Kingdom from the European Union and the ongoing trade dispute between the PRC and the United States, or any inaccurate assessment or the Bank's failure in the management of the credit risks regarding borrowers who are located, or have substantial operations, in such regions, whether due to changes in government policies or otherwise, may materially and adversely affect its asset quality, financial condition and results of operations.

As at 31 December 2019, the Bank's loans to China's (i) manufacturing; (ii) transportation, logistics and postal services; (iii) real estate; (iv) leasing and commercial services and (v) production and supply of power, heat, gas and water industries represented 16.9 per cent., 23.1 per cent., 9.8 per cent., 14.6 per cent. and 12.0 per cent. of its total corporate loans outstanding, respectively. A significant downturn in any industry in which its loans are highly concentrated may lead to a significant increase in nonperforming loans, and may negatively affect the level of new lending or refinancing of existing loans to borrowers in that industry, which may materially and adversely affect its asset quality, financial condition and results of operations.

In accordance with PRC national policies aimed at restricting the over-development of certain industries with excess capacity, including wind power equipment, steel, cement, coal, chemical and flat glass, among other industries, the Bank has adopted a strict policy towards making loans to these industries. In order to reduce its loan exposure and strictly control risks associated with loans to these high-risk industries, the Bank carefully manages the size of its loans to these industries. If the PRC government introduces policies which further restrict the development of these industries and/or these industries otherwise experience a deterioration in their operations, such changes may adversely affect the quality of the Bank's loans to these industries.

In addition, the Bank is exposed to the real estate market in China through, in particular, residential mortgage loans and other loans secured by real property collateral. As at 31 December 2019, the Bank's residential mortgage loans represented 77.2 per cent, of its domestic retail loans outstanding. The PRC government has imposed and may continue to impose macroeconomic control measures aimed at cooling down the real estate market. For example, in March 2017, the Beijing municipal government rolled out new down payment requirements that raises the down payment for second-time ordinary home buyers from 50 per cent. to 60 per cent. and tightened the definition of 'first-time buyers' to buyers who have never had a mortgage history. Home purchase restrictions which aim to cool the real estate market have been rolled out in all major cities in China. Such measures may adversely affect the growth and quality of the Bank's loans to the real estate industry and the Bank's residential mortgage loans. On the other hand, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and its ability to generate new loans, which in turn could have a material adverse effect on the Bank's asset quality, financial condition and results of operations.

As at 31 December 2019, the Bank's loans to its top ten customers totalled CNY345.6 billion, which represented 2.59 per cent. of its total loan portfolio. The Bank's loans to the top ten customers were classified as performing. If any of the performing loans to the top ten customers deteriorates or becomes non-performing, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Bank also provides loans to SMEs and agriculture-related industries and customers. The loans to SMEs and agriculture-related industries and customers are, compared to its other loans, generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. In addition, as the COVID-19 outbreak hampers business activities in the world, including China, CBIRC has promulgated a series of measures to relax credit controls and increase financial support to SMEs to combat the challenges arising from the COVID-19 outbreak. In particular, it has encouraged banking institutions to increase lending to SMEs by lowering loan rates and increasing the amounts these enterprises could borrow. However, SMEs are more vulnerable to fluctuations in the macro-economy and the adverse impact brought by major economic crisis or regulatory changes. In addition, these enterprises 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 major economic crisis or regulatory changes. As a result, this may have an impact on the Bank's overall risk profile and quality of the loan portfolio, which could in turn materially and adversely affect its business, financial condition and results of operations. Separately, there can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to SMEs (e.g. incentive policies to encourage 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. The Bank adopted a number of measures to manage these risks, such as imposing stricter requirements on approving credit applications and charging higher interest rates, but there can be no certainty that these measures will effectively reduce or eliminate the risks relating to such industries or customers. If the Bank's loans to SMEs and agriculture-related industries and customers deteriorate, its asset quality, financial condition and results of operations may be materially and adversely affected.

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

As at 31 December 2017, 2018 and 2019, the Bank's non-performing loan ratio was 1.81 per cent., 1.59 per cent. and 1.40 per cent., respectively and for the same periods, the Bank's non-performing loans amounted to CNY194.0 billion, CNY190.0 billion and CNY187.2 billion, respectively. There can be no assurance that the Bank will be able to maintain or lower its current non-performing loan ratio in the future or that the quality of its existing or future loans and advances to customers will not deteriorate.

The quality of the Bank's loan portfolio may deteriorate in the future due to various reasons, including factors beyond the Bank's control, such as restructuring of the PRC economy, PRC government's initiative to tackle overcapacity in certain industries, a slowdown in the PRC or global economies, a relapse of the global credit crisis, adverse macroeconomic trends in China and other parts of the world and the occurrence of natural disasters and outbreaks of contagious diseases (such as COVID-19), all of which could impair the ability of the Bank's borrowers to service their outstanding debt. Inflation in China may cause rising costs and negatively impact the profitability of the Bank's corporate customers, which in turn may lead to significant increases in the Bank's allowance made for impaired loans. The actual or perceived deterioration in creditworthiness of counterparties, declines in residential and commercial property prices and resulting reduction in collateral values, higher unemployment rates and reduced profitability of corporate borrowers may also cause the Bank's asset quality to deteriorate and may lead to significant increases in allowance made for impaired loans. If the Bank's non-performing loans or the allowance made for impaired loans increase in the future, the results of its operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its ability to effectively manage its credit risk and maintain or improve the quality of its loan portfolio. The Bank seeks to continuously improve its credit risk management policies, procedures and systems. However, there can be no certainty that the Bank's credit risk management policies, procedures and systems are effective or free from deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in its non-performing loans and adversely affect the quality of its loan portfolio.

The Bank's allowance for impairment losses may not be sufficient to cover the actual losses on its loan portfolio in the future.

As at 31 December 2017, 2018 and 2019, the Bank's allowance for impairment losses on loans was CNY404.3 billion, CNY479.1 billion and CNY540.6 billion, respectively. For the same periods, the ratio of its allowance for impairment losses to total loans was 3.8 per cent., 4.0 per cent. and 4.1 per cent., respectively and the ratio of its allowance for impairment losses to non-performing loans was 208.4 per cent., 252.2 per cent. and 288.8 per cent., respectively. The allowance is based on the Bank's current assessment of, and expectations concerning, various factors affecting the quality of its loan portfolio. These factors include, among other things, borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the ability of the guarantors of the borrowers to fulfil their obligations and the implementation of the Bank's credit policies, as well as China's economy, macroeconomic policies, interest rates, exchange rates, and legal and regulatory environments. Many of these factors are beyond the Bank's control, and therefore its assessment and expectations on these factors may differ from future developments. The adequacy of the Bank's allowance for impairment losses depends on the reliable application of its risk assessment system to estimate these potential losses, as well as its ability to accurately collect, process and analyse the relevant statistical data. If the Bank's assessment of, and expectations concerning, the factors that affect the quality of its loan portfolio differ from actual developments, if its assessment results prove to be inaccurate, or if its application of the assessment systems or its ability to collect relevant statistical data proves to be insufficient, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may reduce its profit and therefore materially and adversely affect its asset quality, financial conditions and results of operations.

The collateral or guarantees securing the Bank's loans may not be sufficient, and the Bank may be unable to realise the full value of the collateral or guarantees in a timely manner or at all.

A significant portion of the Bank's loans is secured by collateral or guarantees. As at 31 December 2019, 44.3 per cent. and 16.0 per cent. of its total loans were secured by mortgages and pledges, respectively, and 13.9 per cent. of its total loans were secured by guarantees.

The pledged collateral securing the Bank's loans includes, among other things, bond or equity securities. The mortgages securing the Bank's loans primarily comprise real properties and other assets located in China. The value of the collateral securing its loans may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting China. For example, a downturn in China's real estate market may result in a decline in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal and interest balances of such loans. Any decline in the value of such collateral may reduce the amounts the Bank can recover from such collateral and increase its impairment losses.

The Bank's policies require regular internal re-valuations of collateral. However, such policies may not be implemented in a timely manner and, as a result, it may not have updated valuation of such collateral, which may adversely affect the accuracy of the assessment of its loans secured by such collateral.

Some of the guarantees securing the Bank's loans were provided by the borrowers' affiliates. Such loans and advances are generally not backed by collateral or security interests other than guarantees. A significant deterioration in the financial condition of a guarantor could significantly decrease the amounts the Bank may recover under such guarantees. Moreover, guarantees are subject to the risk that a court or other judicial or government authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amounts guaranteed in respect of its loans.

In China, the procedures for liquidating or otherwise realising the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of such collateral. As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing non-performing loans. For example, in accordance with the Directive on Foreclosure of Mortgage on Residential Properties issued by the PRC Supreme Court (最高人民法院關於人民法院執行設定抵押的房屋的規定), issued on 14 December 2005, amended on 16 December 2008 and effective from 31 December 2008, the PRC courts cannot evict a borrower or his or her dependants from his or her principal residence during the six-month grace period after a court approves the lender's petition to foreclose. In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights. For example, according to the PRC Bankruptcy Law (中華人民共和國企業破產法), claims for the amount that a company in bankruptcy owed to its employees prior to 27 August 2006, including salaries, medical insurance claims and basic pension benefits, will have priority over the Bank's rights to the collateral, if not adequately provided for in accordance with liquidation proceedings.

The Bank's inability to realise the full value of the collateral and guarantees securing its loans on a timely basis may materially and adversely affect its asset quality, financial condition or results of operations.

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

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in a year using the five-category classification system. It performs such assessment, determination and recognition using the concept of impairment under IAS 39. For its corporate loans classified as substandard or lower, it makes an assessment of the impairment allowance on an individual loan basis. For the performing corporate loans and for all of the retail loans, it makes a collective assessment based on its historical loan loss experience. The Bank's loan classification and impairment provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classification as well as its allowance for impairment losses may differ from those reported by international banks incorporated in those countries or regions.

IFRS 9 that replaces IAS 39 may require the Bank to change its provisioning practice.

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with the transition date of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the Group's consolidated financial statements.

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 recognized in the opening retained earnings and other components of reserves in the current 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. Specific accounting policies and financial line items which have been significantly impacted by IFRS 9 are described in Note II 2, Note II 12 and Note II 27 to the audited consolidated financial statements as at and for the year ended 31 December 2018.

If the Bank does not maintain the growth of its loan portfolio, its business operations and financial condition may be materially and adversely affected.

The Bank's loans to customers, net of loan loss allowance, have grown significantly in the past few years, increasing to CNY12,819.6 billion as at 31 December 2019 from 11,461.5 CNY billion as at 31 December 2018 and CNY10,316.3 billion as at 31 December 2017. The growth of its loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. Since 2014, the growth rate of the Bank's total loan portfolio has maintained a relatively steady pace. There can be no assurance that the growth rate of the Bank's loan portfolio will be maintained in the future, it may slow down or even decline. In addition, in response to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of its loan portfolio and thereby materially and adversely affect its business, business prospects, financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles of which the Bank has extended loans to, may materially and adversely affect the Bank's asset quality, financial condition and results of operations.

Loans extended to local government financing vehicles have been a part of the loan portfolio of China's commercial banks. According to the CBIRC, local government financing vehicles consist primarily of government-led vehicles and vehicles whose shares are controlled by the government. These vehicles primarily engage in financing activities wholly or partially supported by the direct or indirect repayment commitments or direct or indirect guarantees from local governments, to provide support to various infrastructure development and quasi-public interest government investment projects. The Bank extends loans primarily to local government financing vehicles for transportation and urban development as well as those vehicles relating to land reserve centres, economic development zones, industry parks or state asset management companies. Within China's administrative division system, the recipients of these loans generally rank at or above the district city level. The Bank targets its loans to local government financing vehicles mainly to China' economically developed areas, including the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. The majority of its loans to local government financing vehicles are backed by mortgages, pledges or guarantees and have remaining maturities of five years or less.

The State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles with the aim of reinforcing the risk management of loans to local government financing vehicles. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to local government financing vehicles and enhancing the mortgages and guarantees on such loans, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayment ability of these financing vehicles, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The PRC government shall under no circumstances have any obligation arising out of or in connection with the Notes, which is solely to be fulfilled by the Issuer.

The Issuer is not part of the PRC government. The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Notes. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises (財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知, 財金[2018] 23號) (the "**MOF Circular**") promulgated on 28 March 2018 and took effect on the same day, and the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) (the "**Joint Circular**") promulgated on 11 May 2018 and took effect on the same day. The description of the relationships between the Issuer and the PRC government in this Offering Circular does not imply in any way any explicit or implicit credit support of the PRC government in respect of the Notes, the repayment of which remains the sole responsibilities of the Issuer.

The PRC government does not have any payment obligations under the Notes or the transaction documents in relation to the Notes. The Notes are solely to be repaid by the Issuer as an obligor under the relevant transaction documents and as an independent legal person. The Noteholders do not have any recourse against the PRC government in respect of any obligation arising out of or in connection with the Notes or the transaction documents.

Risks relating to the Bank's business

The Bank faces certain risks relating to its recently implemented operational reform initiatives.

The Bank continues to develop and implement a number of operational reform initiatives in an effort to become more competitive and customer-oriented, including those relating to re-engineering its business process and organisational structure. For example, (i) the Bank has revamped its corporate banking products and services, targeting growth in value-added products and services such as asset management, bancassurance and investment banking business; (ii) it has prioritised the development of retail banking business, through implementing operational reform of branch outlets, streamlining business procedures and increasing investments in the distribution channels and IT system; and (iii) it has focused on product innovations in order to achieve greater customer satisfaction. In addition, the Bank intends to accelerate the integration between industries and the internet and further the development of internet finance.

Although the Bank's operational reform initiatives have contributed to its financial results in recent years, it may face certain risks relating to the implementation of these initiatives and there can be no assurance that the Bank will be able to achieve the results it expects in the future due to a number of factors, including:

- it may not have sufficient experience or expertise to successfully manage and continue implementing these operational reform initiatives;

- it may not have sufficient and effective management systems and information technology systems to support the implementation of these operational reform initiatives according to its contemplated schedule or at all; and

- changes in government policies or banking regulations may adversely affect the schedule for implementing, or the Bank's ability to implement, these operational reform initiatives.

If the Bank does not successfully implement all or any of these reform initiatives or, if implemented, these initiatives do not achieve the intended benefits within schedule or at all, the Bank's business, results of operations and financial condition may be adversely affected.

Moreover, these operational reform initiatives may expose the Bank to additional risks. Accordingly, if it is unable to manage risks associated with its initiatives to transform its business, the Bank's business prospects, financial condition and results of operations could be adversely and materially affected.

The Bank's focus on the growth of its County Area Banking Business and its related initiatives expose it to increased risks that may materially and adversely affect its business.

The County Area Banking Business is an important component of the Bank's business. Its initiatives in the County Areas are designed to further increase the penetration of its products and services into these areas. Historically, the County Area Banking Business has generally presented relatively higher risks and lower returns than the banking business in the Urban Areas. The Bank's significant banking portfolio and initiatives in the County Areas expose it to higher risks, including: (i) risks that its provisions for impairment losses on loans may be higher than anticipated due to the limited financial capacity of its customers in the County Areas or otherwise; (ii) revenues from its County Area Banking Business may be lower than anticipated; (iii) if the actual development of the County Area banking market differs from its anticipation, the Bank may not be able to derive the return as anticipated from its increased allocation of resources to its County Area Banking Business; (iv) natural disasters and global climate changes may adversely affect the business operations and financial condition of certain of its customers who may not be able to service their obligations owed to the Bank; and (v) the Bank's extensive branch network in the vast County Areas may present challenges to its operations. The Bank's growing County Area Banking Business presents an increased challenge to its management skills, risk control capabilities and information technology systems. If any of the Bank's initiatives in respect of the County Area Banking Business do not achieve the results anticipated, its County Area Banking Business, its overall business, results of operations and financial condition may be materially and adversely impacted.

Furthermore, certain governmental policies and guidelines relating to the Bank's County Area Banking Business impose constraints on its operations. For example, on 23 April 2009, the CBIRC issued the Guideline to Agricultural Bank of China's County Area Banking Division Reform and Regulations（中國農業銀行三農金融事業部制改革與監管指引）(the "**Guideline**"). The Guideline, which was further revised on 29 December 2010, has imposed requirements on the Bank's County Area Banking Business, including its organisational structure, operation mechanism and performance review. The Bank's efforts to comply with the requirements of the Guideline may affect its business strategies, as well as its ability to optimise resource allocation and customer selection, which may adversely affect its profitability in the near-and medium-term. In the past, there have been instances where the ratios of the Bank's assets and liabilities in its County Area Banking Business to its total assets and liabilities and its cost-to-income ratio in the County Area Banking Business did not meet the requirements of the Guideline. Although the Bank has not been subject to any regulatory actions for such non-compliance, there can be no certainty that it will not be subject to any regulatory actions in the future for its past non-compliance. In addition, it cannot assure investors that it will be able to meet all regulatory requirements relating to its County Area Banking Business, including the requirements of the Guideline, in the future due to changes to these requirements or otherwise, or that it will not be subject to sanctions as a result. If any of the above circumstances occurs, the reputation, business, results of operations and financial condition of the Bank may be materially and adversely affected.

If the Bank is not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist with its risk management and internal control, its business and prospects may be materially and adversely affected.

The Bank has in the past suffered from credit-quality problems, lapses in credit approval and control processes, internal control deficiencies and operational problems as a result of weaknesses in its risk management controls. The Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhance its internal control. However, there can be no certainty that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. Some of these risks are yet to be identified by the Bank, and may be unforeseeable or higher than what it originally expected or the historical level. In addition, given the short history of certain aspects of its risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures and fully measure the impact of, and evaluate compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and it cannot assure investors that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, it may not be able to effectively monitor credit risk due to limited information resources or tools. In recent years, the Bank has introduced or refined certain risk management tools and systems to assist it in better managing risks, including the internal credit rating system, the assets and liabilities management system, the internal funds transfer pricing system, the treasury trading and risk management system and the Bank's credit management system. These systems aim at enhancing the Bank's ability to use quantitative measures to manage risks. However, its ability to operate such systems and to monitor and analyse the effectiveness of such systems is still subject to continuous testing. The Bank is also still in the process of further developing information systems to manage certain aspects of risk management, such as automated systems for the collection of certain information relating to connected party transactions and group lending.

If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner, its asset quality, business, financial condition and results of operations may be materially and adversely affected.

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

The Bank has been increasing its product development efforts and expanding its range of products and services to meet the needs of its customers and to enhance its competitiveness.

The expansion of its business activities exposes the Bank to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services, which may prevent it from effectively competing in these areas;
- imitation or replication of its new products and services by its competitors;
- failure of its new products and services to be accepted by its customers or meet the expected targets;

- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;
- insufficient financial, operational, management and other human resources to support its expanded range of products and services;
- inability to obtain regulatory approvals for its new products or services; and
- unsuccessful attempts to enhance its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to successfully expand into or develop new products, services and related business areas due to these risks or to achieve the intended results with respect to such new products and services, its business, financial condition and results of operations may be materially and adversely affected.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy.

The Bank is required by the PRC Commercial Banking Law and the rules promulgated by the CBIRC to maintain a minimum core capital adequacy ratio of 4 per cent, and a minimum capital adequacy ratio of 8 per cent., and under the Capital Rules for Commercial Banks (Provisional), the Bank's minimum common equity Tier 1 core capital adequacy and tier 1 capital adequacy ratio are 5 per cent. and 6 per cent., respectively. As at 31 December 2017, 2018 and 2019, the Bank's consolidated capital adequacy ratios were 13.7 per cent., 15.1 per cent. and 16.1 per cent., respectively. In accordance with the Capital Rules for Commercial Banks (Provisional), the common equity tier 1 core capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 11.2 per cent., 12.5 per cent. and 16.1 per cent., respectively, as at 31 December 2019. 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.

In recent years, CBIRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. Currently, CBIRC is actively pushing forward the implementation of Basel III. In April 2011, CBIRC promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry (關於中國銀行業實施新監管標準的指導意見) to clarify the direction for future regulations and the requirement for prudent regulatory requirements. On 7 June 2012, the CBIRC promulgated the Administrative Measures for the Capital of Commercial Banks (Provisional)(商業銀行資本管理辦法(試行)), which came into effect on 1 January 2013. The Administrative Measures for the Capital of Commercial Banks (Provisional) clarified and refined the categorisations and methods of measurement in respect of the capital instruments of commercial banks. According to the Administrative Measures for the Capital of Commercial Banks (Provisional), 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, additional 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 implement the Administrative Measures for the Capital of Commercial Banks (Provisional), on 30 November 2012, the CBIRC promulgated the Notice of Transitional Arrangement for the Implementation of the Administrative Measures for the Capital of Commercial Banks (Provisional)《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 ''**Notice of Transitional Arrangement**''), pursuant to which commercial banks shall reach the minimum capital requirement by 1 January 2013. Within the transitional period for reaching required targets, the Administrative Measures for the Capital of Commercial Banks (Provisional) and the Notice of Transitional Arrangement 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. Furthermore, the Financial Stability Board identified the Bank as a globally systemically important bank (''**G-SIB**'') in 2014. As a G-SIB, the Bank is required to satisfy heightened capital adequacy ratios pursuant to Basel III. Given the requirement of capital adequacy ratio under the Administrative Measures for the Capital of Commercial Banks (Provisional) and the additional requirements due to its G-SIB status, 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 and that new requirements and regulations will also affect the Bank's funding needs.

In addition, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by CBIRC and the changes in calculations of capital adequacy ratios by CBIRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of 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. In its future plans to raise capital, the Bank may sell any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. 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 Chinese and global economic, political and other conditions at the time of capital-raising.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties.

Fraud and other misconduct by employees or third parties may be difficult to detect and prevent and could subject the Bank to financial losses and sanctions imposed by governmental authorities as well as seriously harm its reputation. Types of misconduct by the Bank's employees in the past have included, among other things, improper extension of credit, unauthorised business transactions, business practices that are in breach of the Bank's internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds, fraud, and bribery.

Types of possible misconduct by third parties against the Bank may include, among other things, fraud, theft and robbery. Types and incidents of fraud and other misconduct by employees or third parties against the Bank may go beyond those detected in the past. In addition, the Bank's employees may commit errors or take improper actions that could subject the Bank to financial claims as well as regulatory actions. As at 31 December 2019, the Bank had 23,149 domestic branch outlets, with a total of 464,011 employees. There can be no certainty that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

In November 2015, the former president of the Bank, Zhang Yun, was taken away by the authorities to assist authorities with an investigation. In January 2016, the Bank discovered that two of its employees had been illegally selling bills of exchange to an agent who further on-sold the bills of exchange to another bank. The Bank has been proactively working with the public security authority to investigate such incidents. Although the Bank has increased its efforts to detect and prevent employee and third-party fraud or other misconduct, it is not always possible to detect or prevent such activities, and the precautions it takes may not be effective in all cases. There can be no certainty that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the reputation, results of operations and business prospects of the Bank, or that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

The Bank may be subject to penalties and other adverse consequences should it be determined that transactions in which it participates violate U.S. or other sanctions.

U.S. law generally prohibits U.S. persons from directly or indirectly investing or otherwise doing business in or with certain countries (such as the Crimea region, Burma/Myanmar, Cuba, Iran, North Korea, Sudan and Syria and others) and with certain persons or businesses that have been specially designated by the OFAC or other U.S. government agencies. Other governments and international or regional organisations also administer similar economic sanctions.

While the Bank does not believe that it is in violation of any applicable sanctions and the proceeds of the issue of the Notes is not intended to be used in violation of sanctions, if it were determined that transactions in which it participates violate U.S. or other sanctions, it could be subject to U.S. or other penalties, and its reputation and future business prospects in the United States or with U.S. persons, or in other jurisdictions, could be adversely affected.

If the Bank fails to maintain the growth rate of its customer deposits or if there is a significant decrease in customer deposits, its business operations and liquidity may be materially and adversely affected.

Customer deposits are the Bank's primary source of funding. From 31 December 2017 to 31 December 2019, its average balance of deposits grew from CNY15,599.8 billion to CNY17,615.2 billion, and its domestic retail deposits grew from CNY9,246.5 billion to CNY10,611.9 billion respectively. However, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, with the continuing development of China's capital markets, customers of the Bank may reduce their deposits and increase their investment in securities for a higher return.

If the Bank fails to maintain the growth rate in its deposits or if a substantial portion of its depositors withdraw their deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such event, the Bank may need to seek more expensive sources of funding and there can be no assurance that it will be able to obtain additional funding on commercially reasonable terms as and when required. The Bank's ability to raise additional funds may be impaired by factors over which it has little or no control, such as deteriorating market conditions, severe disruptions in the financial markets, or negative outlooks for the industries to which it has significant credit exposure.

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

The Bank depends on its information technology systems to process transactions on an accurate and timely basis, and to store and process its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, is critical to its business and ability to compete effectively. The Bank's disaster recovery testing centre in Beijing provides backup for its shanghai data centre and could be used in the event of a catastrophe or a failure of its core production system. The Bank is in the process of establishing a backup data centre in Beijing, which is designed to further enhance its backup and disaster recovery capabilities. It has also established alternative communication networks where available. However, its business activities would be materially disrupted if there is a partial or complete failure of any of the information technology systems or communication networks. Such failure can be caused by a variety of factors, including natural disasters, extended power outages, breakdown of key hardware systems and computer viruses. The proper functioning of the information technology systems of the Bank also depends on accurate and reliable data input and other sub-system installation, which are subject to human errors. Any failure or delay in recording or processing its transaction data could subject it to claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is critical to the Bank's operations. Its networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that its existing security measures will prevent unforeseeable security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons that circumvent the Bank's security measures could use the Bank's or its clients' confidential information wrongfully. Any material security breach or other disruption could expose the Bank to risk of loss and regulatory actions and harm its reputation.

The competitiveness of the Bank will to some extent depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by it through the existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the current operating environment. Any substantial failure to improve or upgrade the information technology systems effectively or on a timely basis could materially and adversely affect the competitiveness, results of operations and financial condition of the Bank.

The Bank is subject to credit risk with respect to certain off-balance sheet commitments.

In the normal course of its business, the Bank makes commitments which, under applicable accounting principles, are not reflected as liabilities on the balance sheet, including bank acceptances, loan commitments, guarantees and letters of credit to guarantee the performance of the customers. The Bank is subject to credit risk on its off-balance sheet commitments because these commitments may need to be fulfilled by it in certain circumstances. If the Bank is unable to recover payment from its customers in respect of the commitments that it is called upon to fulfil, the financial condition and results of operations of the Bank could be adversely affected.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and it may be required to seek alternative premises for some of the offices or business sites due to its landlords' lack of relevant title certificates.

The Bank currently holds certain properties for which it does not have the relevant land use right certificates or building ownership certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained and it plans to cooperate closely with the local land and property management authorities to expedite such applications. The Bank has taken steps to rectify certain title defects. However, it may not be able to obtain certificates for all of these properties due to title defects or for other reasons. There can be no assurance that the ownership rights of the Bank would not be adversely affected in respect of properties for which it is unable to obtain the relevant title certificates. If the Bank were forced to relocate any of the operations it conducts on the affected properties, it may incur additional costs as a result of such relocation.

In addition, the Bank leases certain properties from lessors who were not able to provide the title certificates or documents evidencing the authorisation or consent of the owners of such properties. As a result, such leases may be invalid. In addition, there can be no assurance that the Bank would be able to renew its leases on terms acceptable to the Bank upon their expiration. If any of the Bank's leases are terminated as a result of challenges by third parties or if the Bank fails to renew them upon expiration, it may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and the business, financial condition and results of operations of the Bank may be adversely affected.

The Bank is subject to various PRC and overseas regulatory requirements, and its failure to fully comply with such requirements, if any, could materially and adversely affect its business, reputation, financial condition and results of operations.

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities. Its overseas branches, subsidiaries and representative offices are subject to local laws and regulations as well as to local regulatory authorities.

The PRC regulatory authorities include the MOF, PBOC, CBIRC, CSRC, CIRC, SAT, NAO, SAIC and SAFE. These regulatory authorities carry out periodic supervision and spot checks of the Bank's compliance with laws, regulations and guidelines.

The Bank is subject to various PRC and overseas regulatory requirements, and the PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. On occasion it has failed to meet certain requirements and guidelines set by the PRC regulatory authorities, or it was found to have violated certain regulations. In addition, the Bank has in the past been subject to fines and other penalties for cases of its non-compliance. There can be no assurance that it will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the business, reputation, financial condition and results of operations of the Bank may be materially and adversely affected.

The Bank may not be able to detect money-laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation.

The Bank is required to comply with applicable anti-money-laundering and anti-terrorism laws and other regulations in the PRC, Hong Kong, Singapore, the US and other jurisdictions where it has operations. These laws and regulations 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 in the past been subject to administrative fines and penalties imposed by regulatory agencies in the PRC for, among other things, incidents of non-compliance with the PRC anti-money-laundering rules, including, for example, failure to report large or suspicious transactions. In addition, following a cease and desist order issued in September 2016 where the Bank and the Bank's New York branch were ordered to submit written plans to improve its internal control and compliance functions, in November 2016, the Bank's New York branch agreed to pay a U.S.$215 million penalty in connection with violations of anti-money laundering laws and other relevant regulatory requirements in a consent order entered into by the Bank and its New York branch with the New York state regulator. Pursuant to the consent order, the Bank is required to take immediate steps to correct violations, including engaging an independent monitor reporting directly to the state regulator to implement effective anti-money laundering controls. While it has adopted policies and procedures aimed at detecting and preventing the use of its banking networks for money-laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where it may be used by other parties to engage in money-laundering and other illegal or improper activities due to, in part, the short history of these policies and procedures. To the extent it may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank. In addition, the business and reputation of the Bank could suffer if customers use it for money-laundering or illegal or improper purposes.

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

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. China started to withdraw its economic stimulus plan implemented during the financial crisis and returned to its normal policy direction. The PRC government imposed stricter control measures on the real estate market, regulated local government financing vehicles, cancelled export tax refund policies for certain commodities and restarted the reform of Renminbi exchange rate.

Currently, the employment, credit and property market conditions of developed economies are still unstable and this is further exacerbated by the political instability around the world. The ongoing trade dispute between the PRC and the United States, the increase in tariffs that the United States plans to impose on Chinese imports and the restrictions, prohibitions and other similar regulatory measures announced by the United States have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. In Europe, the exit of the United Kingdom from the European Union, and any prolonged period of uncertainty which results, could have a significant impact on international markets. These could include further falls in stock exchange indices, a fall in the value of the key trading currencies such as the Euro and/or greater volatility of markets in general due to the increased uncertainty. The outbreak of COVID-19 and its spread worldwide are expected to introduce more uncertainties and volatility in global markets, as it remains unknown when the ongoing situation will improve and whether any effective containment of the spread of the coronavirus can be achieved. The status of the global economy therefore remains uncertain and such uncertainties in the global economy together with uncertainties in China's economy 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 non-performing loans, 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 China's economy or the global economy will maintain sustainable growth. If another economic downturn occurs, the business, results of operations and financial condition of the Bank could 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 outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

The Bank is subject to counterparty risks in its derivative transactions.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and it currently has foreign currency forward and swap arrangements and interest rate swap arrangements with a number of domestic and international banks, other financial institutions and other entities. While the Bank believes that the overall credit quality of its counterparties is satisfactory, there can be no assurance that the Bank's counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

The Bank's major shareholders have the ability to exercise significant influence over it.

As at 31 December 2019, the Bank's major shareholders, the MOF and Huijin, own approximately 39.2 per cent. and 40.0 per cent., respectively, of its outstanding shares as beneficial owners. In accordance with the Articles of Association and applicable laws and regulations, the MOF and Huijin will have the ability to exercise a controlling influence over the business of the Bank, including matters relating to:

- the timing and amount of the distribution of dividends;
- the issuance of new securities;
- the election of the Bank's directors and supervisors;
- the Bank's business strategies and policies;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Articles of Association.

The interests of the MOF and Huijin may conflict with the interests of the Bank. In addition, since the MOF is a ministry of the State Council and Huijin is a wholly state-owned limited liability company formed under the PRC law, they have strong interests in the successful implementation of the economic or fiscal policies enacted by the PRC government, which policies may not be in the best interest of the Bank.

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

In recent years, the Bank has taken actions to expand its operations outside mainland China. As at 31 December 2019, it had 13 overseas branches in Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxembourg, Dubai, London, Macao and Hanoi, as well as 4 representative offices in Vancouver, Hanoi, Taipei and Sao Paulo.

The expansion into multiple jurisdictions outside of China exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in these overseas jurisdictions may result in mark-to-market and realised losses on the investment assets held by the overseas branches and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which it has or plans to have operations could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside mainland China, its business, reputation, financial condition and results of operations may be adversely affected.

Risks relating to the banking industry in China

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

The Bank is facing competition from other commercial banks and financial institutions in both the Urban Areas and the County Areas. It competes primarily with other Large Commercial Banks, National Joint Stock Commercial Banks, city commercial banks and foreign banks in China.

Certain of these banks may have more established presence in certain areas and more financial, management and technology resources than the Bank does. In the County Areas, the Bank competes primarily with other Large Commercial Banks, rural credit cooperatives and the Postal Savings Bank of China. Some of these banks may have more simplified management structures and procedures in certain regions and areas. In recent years, the PRC government has gradually lowered the threshold for financial institutions to conduct business in the County Areas and strengthened the relevant financial and tax support, which, while the Bank believes will promote the development of the County Area financial market, will further intensify the competition among financial institutions in the County Areas.

Additionally, following the removal of regulatory restrictions on their geographical presence, customer base and operating license in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased competition from foreign-invested commercial banks. Recently, a number of well-known foreign banks have expanded their presence in the County Areas. 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 China, have also increased competition in China'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 interest income, 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 Bank's business an d 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 China'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 China 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. In February 2014, the NDRC and the CBIRC jointly issued Measures for the Administration of the Service Prices of Commercial Banks (the "**Measure**"). According to the Measure, the prices of basic banking services that are widely used by clients and have significant influence on China'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**"). In July 2017, the NDRC and the CBIRC jointly issued a notice on Canceling and Suspending the Charges for Some Basic Financial Services Provided by Commercial Banks, which took effect on 1 August 2017.

According to the Catalogue, the prices of the basic financial services provided by commercial banks for bank clients shall be subject to the 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.

On 11 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 came into effect on 11 January 2017. The 2017 PBOC Circular established a mechanism aimed at regulating cross border financing activities conducted by domestic institutions, including domestic enterprises and financial institutions other than the governmental financing platforms and real estate enterprises, based on the capital or net assets of the borrowing entities. Pursuant to the 2017 PBOC Circular, the issuance of any notes is required to be filed with SAFE. However, neither PBOC nor SAFE has promulgated implementation rules of the 2017 PBOC Circular as at the date of this Offering Circular. The filing process for the aforesaid regulations and the interpretation and enforcement of the 2017 PBOC Circular thus involve substantial uncertainties due to its recent promulgation and publication.

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, the Bank's net interest income represented 81.4 per cent., 79.3 per cent. and 77.4 per cent., respectively, of its operating income. Interest rates in China historically were highly regulated but have been gradually liberalised in recent years. The PBOC promulgated the Notice of Lowering the RMB Benchmark Lending and Deposit Rates for Financial Institution and Further Promoting the Interest Rate Liberation Reform on 23 October 2015, which removed the upper limits on the deposit interest rates for the commercial bank. There used to be restriction with respect to the lower limit of the interest rates for CNY-denominated deposits. However, PBOC promulgated the Notice on Further Promoting the Market-oriented Reform of Interest Rates on 19 July 2013, eliminating such restriction on CNY-denominated loans, except for residential mortgage loans. The PBOC may further liberalise the existing interest rate restrictions on CNY-denominated loans and deposits. If the existing regulations were substantially liberalised or eliminated, competition in China's banking industry would likely intensify as China'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 CNY-denominated loans and CNY-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 the 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 China 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 China, there are limited risk management tools available to enable the Bank to reduce market risks.

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

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

The information infrastructure in China 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 nor as effective as a unified nationwide credit information system. As a result, the Bank's ability to effectively manage its credit risk and in turn, its asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank cannot assure investors of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to China, its national or County Area economies or its banking industry.

Facts, forecasts and statistics in this Offering Circular relating to China, its national or County Area economies and financial conditions and its banking industry, including the Bank's market share information, are derived from various sources which are generally believed to be reliable.

However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with the information available from other sources, and may not be complete or up to date. The Bank has taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

Risks relating to China

China'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 China. 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 China. China'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.

China's economy was previously a planned economy, and a substantial portion of productive assets in China is still owned by the PRC government. The government also exercises significant control over China'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 of such measures. The PRC government has the power to implement macroeconomic control measures affecting China'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, beginning in September 2008, the PRC government began to implement a series of macroeconomic measures and the moderately loose 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 and moderately tight monetary policies to curb inflation in China. 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 to 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 the real estate developers make payments for the land premiums and increased the relevant down payment requirement on the real estate developers. In April 2010, the PRC government raised the down payment requirements for people buying their 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 meters 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 13 March 2014, the State Council promulgated the Guiding Opinions on Resolving Serious Production Overcapacity Conflicts, which prohibits to provide any form of new credit support for newly increased production capacity projects in the industries with severe overcapacity without approval or recordation by the competent investment and industry departments. These requirements may adversely affect the condition of certain of the Bank's loans to the relevant industries.

China has been one of the world's fastest growing economies, as measured by GDP growth, in recent years. However, China may not be able to sustain such a growth rate. If China'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 bankruptcy laws of the PRC may differ from those of other jurisdictions with which the holders of the Notes are familiar.

The Bank is incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Bank would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

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

The Bank is organised 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 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 continue to evolve, may be subject to different interpretation and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but 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 protection that are available to investors and can adversely affect the value of an investment.

For example, according to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issue within 10 working days after the completion of the issue of the securities. The NDRC Circular is silent on the legal consequences of noncompliance with the pre-issue registration requirement. In the worst-case scenario, if pre-issue registration is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to the enforcement as provided in Condition 10 (Events of Default) of the Conditions. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular.

Pursuant to the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (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, the NDRC will grant annual foreign debt quota to certain pilot enterprises. Within the annual quota, such pilot enterprises may issue foreign debt by themselves or by and through their controlled overseas subsidiaries or branches. Pilot enterprises shall notify certain information of the bonds to the NDRC after the completion of the bond issue.

Under the 2017 PBOC Circular, financial institutions are required to file relevant operating rules and internal control policies and the details of the calculation of their outstanding foreign debt and foreign debt limit with PBOC or SAFE before making their first cross-border financing transaction and they are required to report to PBOC or SAFE of the amount of their capital fund and the financing agreement when a financing agreement is signed and before the drawdown of the loan or issue of debt securities, report their cross-border income after such drawdown, and report their cross-border payments after making interest or principal payments. In addition, financial institutions are also required to report to PBOC or SAFE within the first five working days of each month the foreign debt they have borrowed and the change in their outstanding foreign debt during the previous month. The Bank is one of the 27 designated banks required to carry out the aforesaid reporting procedures. The 2017 PBOC Circular is a new regulation and is subject to interpretation and application by relevant PRC authorities. The 2017 PBOC Circular applies to the issue of Notes under the Programme by the Bank or its onshore branches, but does not explicitly state whether it applies to offshore subsidiaries or branches of financial institutions incorporated in the PRC.

If reporting is required but not complied with, PBOC and/or SAFE may, among other things, (a) issue a notice of censure, (b) request rectification within a time limit, (c) impose a penalty according to the Law of People's Republic of China on the People's Bank of China and the Regulation of the People's Republic of China on the Management of Foreign Exchanges, (d) suspend cross-border financing of the institution, and (e) collect risk reserves from the institution. In addition, in the worst case scenario, if reporting is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to the enforcement as provided in Condition 10 (Events of Default) of the Conditions.

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 China. In addition, a majority of its directors, supervisors and executive officers reside in China, and substantially all of the assets of such directors, supervisors and executive officers are located in China. Therefore, it may not be possible for investors to effect service of process upon the Bank or those persons inside China.

Furthermore, China 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 China 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 revenues in Renminbi, which is currently not a freely convertible currency. A portion of these revenues 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 China'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 China'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, China 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, PBOC decided to further reform China's exchange rate system in order to make it more flexible. 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, and any dividends payable on, the Bank's H shares in foreign currency terms. 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 costs. 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 abilities 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 of 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.

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

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases may materially and adversely affect the Bank's business 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 outbreak globally has resulted in increased travel restrictions and extended delay or suspension of some business activities around the world, which may result in adverse impact on the Bank's businesses. 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 global economy and the Bank's customers will not adversely affect the level of non-performing loans. The outbreak may also adversely affect the Bank's ability to continue normal operations and provide uninterrupted services to its customers. China has also experienced natural disasters like earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. The Bank suffered an adverse impact from the earthquake in Sichuan Province. The Bank also suffered the adverse impact from the earthquake in Qinghai Province, but the impact is not material because its operations in the locality affected by the earthquake are small. In 2010, there were severe droughts and flood in various parts of China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business, particularly in light of the substantial portion of the Bank's County Area Banking Business which is more vulnerable to natural disasters. There is no guarantee that any future occurrence of natural disasters or outbreaks of contagious diseases, or the response measures taken by the PRC government or other countries, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on the Bank's results of operations.

Risks relating to the Notes issued under the Programme

The 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:

- 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;

- 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;

- 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;

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

- 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.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to an investor's overall portfolio. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the 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.

Additionally, 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) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which includes the Bank. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, subject to certain safeguards, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO.

On 22 January 2020, the HKMA published a consultation paper which set out proposals for the rules that the HKMA intends to make under the FIRO relating to contractual stays on termination rights in financial contracts for authorised institutions. The consultation period ended on 22 March 2020. The proposed stay rules, if implemented, will require that entities subject to the rules adopt appropriate provisions in certain financial contracts to the effect that the contractual parties agree to be bound by the temporary stay that may be imposed by the HKMA under the FIRO, which may in turn affect any in-scope financial contracts between a qualifying entity and its counterparty(ies).

The implementation of FIRO remains untested and certain details relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO and any potential secondary legislation and/or supporting rules made under FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

Modification and waivers

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and to obtain written resolutions on matters relating to the Notes from Noteholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes of the relevant Series who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Agency Agreement and whose Notes are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

A written resolution as described above may be effected in connection with any matter affecting the interests of Noteholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Noteholders satisfying the special quorum in accordance with the provisions of the Agency Agreement, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. 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 Issuer may permit a modification of, or a waiver or authorisation of any breach or proposed breach of or a failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

The Notes may be represented by Global Notes or Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate 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 or Global Certificates. Such Global Notes or Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg, (each of Euroclear and Clearstream, Luxembourg, a "**Clearing**

System"). Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive Definitive Notes or Certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificate. While the Notes are represented by one or more Global Notes or Global Certificates, 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 or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate 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 or Global Certificate. Holders of beneficial interests in the Global Notes or Global Certificate 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.

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, together with any review reports prepared in connection therewith, as well as the most recently published unaudited and unreviewed quarterly financial information. 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 HKSE. The quarterly interim reports have not been and will not be audited or reviewed by the Bank's independent auditors and were and will be prepared under IFRS. 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-year or quarterly interim financial information should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

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 laws and 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.

Risks relating 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:

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 inter-bank offered rate (such as LIBOR or EURIBOR) or other relevant reference 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 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 the spread or a formula or methodology for calculating a spread which (i) is formally recommended in relation to the replacement of the Reference Rate (as defined in the Terms and Conditions of the Notes) with the Successor Rate by any Relevant Nominating Body (as defined in the Terms and Conditions of the Notes); (ii) if no such recommendation has been made or in the case of an Alternative Rate, the spread, formula or methodology which the Independent Adviser (as defined in the Terms and Conditions of the Notes) (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as applicable); or (iii) if the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the spread, formula or methodology which the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders. There is no guarantee that any Adjustment Spread will be determined or applied. If no Adjustment Spread is determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest.

The use of any such Successor Rate or Alternative 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 all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser (as defined in the Terms and Conditions of the Notes) to determine the Successor Rate or Alternative Rate (as applicable), no later than five business days 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 fails to determine the Successor Rate or Alternative Rate (as applicable) prior to the relevant IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) will have discretion to, amongst other things, determine the relevant Successor Rate or Alternative Rate (as applicable). There can be no assurance that such Successor Rate or Alternative 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 Rates, 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.

Notes subject to optional redemption by the Issuer

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

- the market price of such Notes may be volatile;

- they may receive no interest;

- payment of principal or interest may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to 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 likely will be magnified; and
- 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 the LIBOR. The market values of such Notes typically are 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 these 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 to conventional interest-bearing securities with comparable maturities.

Bearer Notes where denominations involve integral multiples

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denominations (as defined in the Conditions). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks Relating to Renminbi-denominated Notes

Notes denominated in RMB (the "**RMB Notes**") may be issued under the Programme. RMB Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into or out of the PRC

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the U.S. dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover the whole nation and to make RMB trade and other current account item settlement available in all countries worldwide. On 7 April 2011, the SAFE promulgated the Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi (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)(the "**SAFE Circular**"), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the relevant prior written consent from the MOFCOM to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the external guarantee provided, by an onshore entity (including a financial institution) in RMB shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

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**") which was revised 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 PBOC Circular (as defined in "**PRC Currency Controls**") is no longer necessary. The MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures, which are new regulations, will be subject to interpretation and application by the relevant PRC authorities. See "*PRC Currency Controls*".

On 3 December 2013, MOFCOM promulgated the "Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment" (商務部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, to further facilitate

FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the "Notice on Issues in relation to Cross-border Renminbi Foreign Direct Investment"(商務部關於跨境人民幣直接投資有關問題的通知) promulgated by MOFCOM on 12 October 2011 (the "**2011 MOFCOM Notice**"). Pursuant to the MOFCOM RMB FDI Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Compared with the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular no longer contains the requirements for central level MOFCOM approvals for investments of RMB300 million or above, or in certain industries, such as financial guarantee, financial leasing, micro-credit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries under the state macro-regulation. Unlike the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi.

The reforms which are being introduced and will be introduced in the Shanghai Free Trade Zone (the "**Shanghai FTZ**") aim to upgrade cross-border trade, liberalise foreign exchange control, increase the convenience of cross-border use of Renminbi, and promote the internationalisation of Renminbi. However, given that the Shanghai FTZ is still in its infancy, how the reforms will be implemented and whether (and if so when) the reforms will be rolled out throughout China remain uncertain.

To support the development of the Shanghai FTZ, the Shanghai Head Office of the PBOC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ(關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知)(the "**PBOC Shanghai FTZ Circular**") on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor's instruction. In respect of FDI in industries that are not on the "negative list" of the Shanghai FTZ, the MOFCOM approval that was previously required has been replaced by a filing. However, the application of the Shanghai FTZ Circular is limited to the Shanghai FTZ.

In addition, the MOFCOM RMB FDI Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

As the MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

Although starting from 1 October 2016, the Renminbi will be added to the Special Drawing Rights basket created by the International Monetary Fund, there is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 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 funds cannot be repatriated outside 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.

The availability of Renminbi outside the PRC may be limited, 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 by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. Hong Kong residents are permitted to convert limited amounts of foreign currencies, including Hong Kong dollars, into Renminbi at such banks on a per-day basis. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB

Business (the "**Settlement Agreement**") between the PBOC and Bank of China (Hong Kong) Limited (the "**RMB Clearing Bank**") to further expand the scope of RMB business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there will no longer be any restriction on the transfer of RMB funds between different accounts in Hong Kong. However, the current size of Renminbi-denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Hong Kong that are in the same bank group of the participating banks concerned with their own trade position and the RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to RMB20,000 per person per day and for the designated business customers relating to the RMB received in providing their services. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market 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 Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of the Issuer's 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.

Investment in RMB Notes is subject to exchange rate risks

The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Issuer will make all payments of interest and principal with respect to the RMB Notes in Renminbi. As a result, the value of these Renminbi payments in U.S. dollar or other applicable foreign currency terms may vary with changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other applicable foreign currency between then and when the Issuer pays back the principal of the RMB Notes in Renminbi at maturity, the value of a Noteholder's investment in U.S. dollar or other applicable foreign currency terms will have declined.

Payments for the RMB Notes will only be made to investors in the manner specified in the RMB Notes

Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong. All Renminbi payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by a temporary Global Note, a permanent Global Note or a Global Certificate held with the common depositary for Clearstream, Luxembourg and Euroclear Bank or with a sub-custodian for the CMU or any alternative clearing system by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the RMB Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with the 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).

There may be PRC tax consequences with respect to an investment in the RMB Notes

In considering whether to invest in the RMB Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situation as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the holder's investment in the RMB Notes may be materially and adversely affected if the holder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those RMB Notes.

Risks relating 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:

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and global economic downturn. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issues in other countries, including the PRC. Since the global financial crisis in 2008 and 2009, the international financial markets have experienced significant volatility, such as that caused in recent years by the global financial and economic crisis, including the European debt crisis, the potential withdrawal of countries from the Euro-zone and the United Kingdom formally notifying the European Counsel of its desire to withdraw from the European Union following the referendum in the United Kingdom on 23 June 2016 (where on 31 January 2020, the United Kingdom's membership of the European Union formally ended), the recent US-China trade tensions including the restrictions, prohibitions and other similar regulatory measures announced by the United States and the recent COVID-19 outbreak which has caused stock markets worldwide to lose significant value and impacted economic activities in Asia and worldwide. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be 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. Illiquidity may have a material adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (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 Inventor'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 (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 or principal than expected, or no interest or principal.

Interest rate risks

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

Credit ratings may not reflect all risks and any credit rating 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, additional factors discussed above, and other factors that may affect the value of the Notes. 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 their respective 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.

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. Financial institutions 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.

TERMS AND CONDITIONS OF THE NOTES

*The following other than the words in italics 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 the terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) the 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 the Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Bearer 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 the issuing branch of the Bank (as defined below) located outside the PRC specified hereon as issuer (the "**Issuer**") and are issued pursuant to an amended and restated agency agreement dated 11 October 2018, as amended and supplemented by the first supplemental agency agreement dated 24 August 2020 (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") between Agricultural Bank of China Limited (the "**Bank**"), Agricultural Bank of China Limited Hong Kong Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 17 July 2015 executed by the Bank in relation to the Notes. The fiscal agent, the CMU Lodging and paying agent, the other paying agents, the registrars, the transfer agents 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**" and the "**Calculation Agent(s)**". 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 a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. 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 deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

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

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

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, 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 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 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 Conditions 2(f) and 2(g), 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. 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.

(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. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the 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 three business days of receipt of the 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 Transfer Agent or of the Registrar (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 (as defined in the Agency Agreement) 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 relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option 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 as the Registrar or the relevant Transfer Agent may require).

(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 the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

(g) **Regulations Concerning Transfers and Registration:** All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3 Status

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) 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 and subject to Condition 4(a), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 Negative Pledge and Other Covenants

(a) **Negative Pledge**: So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement) the Bank will not, and will ensure that none of its Subsidiaries will create, or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Public External Indebtedness or to secure any guarantee or indemnity in respect of any Public External Indebtedness without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of

Noteholders. This provision, however, will not apply to any (i) security interest on any property or asset existing at the time of acquisition of such property or asset or to secure the payment of all or any part of the purchase price or construction cost thereof or to secure any indebtedness incurred prior to, or at the time of, such acquisition or the completion of construction of such property or asset for the purpose of financing all or any part of the purchase price or construction cost thereof or (ii) lien arising by operation of law.

(b) **NDRC Reporting:** Where the NDRC Circular applies to the Tranche of Notes to be issued, the Issuer undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the NDRC within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Circular.

(c) **PBOC Filing:** Where the PBOC Circular applies to the Tranche of Notes to be issued, the Issuer undertakes to complete the filing of such Notes prior to the relevant launch of the offering, and, as applicable, after the relevant Issue Date within the prescribed timeframe in accordance with the PBOC Circular.

(d) **CBIRC Approval and Filing**: In the case of an issuance of Notes by the Bank as the Issuer, the Issuer shall obtain, as applicable, the approvals from CBIRC for the creation and issuance of the relevant Tranche of Notes, and complete the reporting and submission to CBIRC which are permitted to be obtained or completed after the date of the issuance of the relevant Tranche of Notes.

In these Conditions:

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

"**NDRC**" means the National Development and Reform Commission of the PRC;

"**NDRC Circular**" means 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 as amended and supplemented by any implementation or guidance rules or policies (including but not limited to a pilot programme) as issued by the NDRC from time to time;

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

"**PBOC Circular**" means the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing (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) as issued by the PBOC on 11 January 2017;

"**Public External Indebtedness**" means any indebtedness of the Bank (or, for the purpose of Condition 9, any Subsidiary), or any guarantee or indemnity by the Bank of indebtedness, for money borrowed, which (i) is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the People's Republic of China (for the purpose hereof not including the Hong Kong and Macau Special Administrative Regions or Taiwan) (the "**PRC**") (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days; and

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Bank.

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 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. 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:

(x) the Floating Rate Option is as specified hereon

(y) the Designated Maturity is a period specified hereon and

(z) 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

(x) 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:

(1) the offered quotation; or

(2) 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 or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 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. (in the case of CNH HIBOR) 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.

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(l) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) 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 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, if the Reference Rate is CNH HIBOR, at approximately 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. 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

(z) if paragraph (y) 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, if the Reference Rate is CNH HIBOR, at approximately 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. 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, if the Reference Rate is CNH HIBOR, at approximately 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. 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 Rate of Interest 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 Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate. For the purposes of this Condition 5(b)(C), "**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(iv) *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 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 or 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 countries 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.

(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 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.

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

"**Business Day**" means:

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

(iii) in the case of 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 a currency and/or one or more Business Centres, 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.

"**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_l 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_l is greater than 29, in which case D2 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 Dl 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 D2 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:

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

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 (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

"$\mathbf{D_2}$" 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 D_2 will be 30 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 (x) the number of days in such Determination Period and (y) 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:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins 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

(y) the number of days in such Calculation Period falling in the next Determination 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

where:

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

"**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.

"**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 neither Sterling nor euro nor Hong Kong dollars nor 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.

"**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.

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

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note 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 Chinese Yuan 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 Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

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

"**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 them hereon and for so long as any Note is outstanding (as defined in the 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.

(l) **Benchmark Replacement**

(i) Independent Adviser

If the Issuer determines that a Benchmark Event has occurred in relation to the relevant Reference Rate specified hereon when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Reference Rate, then the Issuer shall use its reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine, no later than five business days prior to the relevant Interest Determination Date relating to the next succeeding Interest Accrual Period (the "**IA Determination Cut-off Date**"), a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(l)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5(l)(iii)) and any Benchmark Amendments (in accordance with Condition 5(l)(iv)).

An Independent Adviser appointed pursuant to this Condition 5(l) shall act in good faith as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Paying Agents, the Noteholders or the Couponholders for any determination made by it pursuant to this Condition 5(l).

If (A) the Issuer is unable to appoint an Independent Adviser, or (B) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, failing which, an Alternative Rate. However, if no Successor Rate or Alternative Rate is determined prior to the relevant Interest Determination 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 the initial Rate of Interest. 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 only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided, in this Condition 5(l)(i).

(ii) Successor Rate or Alternative Rate

If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) determines that:

(A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 5(l)(iii)) subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(l)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 5(l)(iii)) subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(l)).

(iii) Adjustment Spread

If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines (A) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as applicable) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(iv) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(l) and the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable) determines (A) that amendments to these Conditions and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(l)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Fiscal Agent of a certificate signed by two Directors of the Issuer pursuant to Condition 5(l)(v), the Fiscal Agent shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Agency Agreement), provided that the Fiscal Agent shall not be obliged so to concur if in the opinion of the Fiscal Agent doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Fiscal Agent in these Conditions or the Agency Agreement (including, for the avoidance of doubt, any supplemental agency agreement) in any way.

In connection with any such variation in accordance with this Condition 5(l)(iv), 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.

(v) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(l) will be notified promptly by the Issuer to the Fiscal Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 14, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer:

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

(B) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or (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 Fiscal Agent shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Fiscal Agent's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the Paying Agents and the Noteholders.

(vi) Survival of Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(l)(i), (ii), (iii) and (iv), the relevant Reference Rate specified hereon and the provisions provided for in Condition 5(b)(iii) will continue to apply unless and until a Benchmark Event has occurred.

(vii) Definitions

As used in this Condition 5(l):

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

(A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body;

(B) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as applicable); or

(C) if the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances and solely for the purposes of this sub-paragraph (C) only, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders and Couponholders.

"Alternative Rate" means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in a reasonable manner) is most comparable to the relevant Reference Rate;

"**Benchmark Amendments**" has the meaning given to it in Condition 5(l)(iv).

"**Benchmark Event**" means, in respect of a Reference Rate:

(A) such Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(B) a public statement by the administrator of such Reference Rate that it has ceased or that it 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

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

(D) a public statement by the supervisor of the administrator of such Reference Rate as a consequence of which such Reference Rate will be prohibited from being used either generally, or in respect of the Notes, or that its use will be subject to restrictions or adverse consequences; or

(E) a public statement by the supervisor of the administrator of such Reference Rate that, in the view of such supervisor, such Reference Rate is or will be no longer representative of an underlying market or the methodology to calculate such Reference Rate has materially changed; or

(F) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using such Reference Rate.

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (B) and (C) above, on the date of the cessation of publication of the Reference Rate or the discontinuation of the Reference Rate, as the case may be, (b) in the case of sub-paragraph (D) above, on the date of the prohibition or restriction of use of the Reference Rate and (c) in the case of sub-paragraph (E) above, on the date with effect from which the Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser of recognised standing and with appropriate expertise, in each case appointed by the Issuer at its own expense under Condition 5(l);

"**Margin**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Nominating Body**" means, in respect of a reference rate:

(A) the central bank for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; or

(B) 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 reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate, (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"Successor Rate" means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

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 paragraph (i) above, 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) 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), Condition 6(d) or Condition 6(e) 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 Interest Note) or, at any time, (if this Note is neither a Floating Rate Note nor an Index Linked Interest 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 any Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, 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 certificate signed by two Directors 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 an opinion of independent legal 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.

(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 Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any 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 Agency Agreement) without the prior consent of the Issuer.

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

(g) **Purchases:** The Issuer 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.

(h) **Cancellation**: All Notes purchased by or on behalf of the Issuer 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)(vi)), as the case may be:

(i) in the case of 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 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(a), "**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.

(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 paragraph (ii) 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 Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for payment thereof (the "**Record Date**"). Payments of interest 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)(ii), "**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.

(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:** Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (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.

(e) **Appointment of Agents:** The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent 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, Transfer Agents and the Calculation Agent(s) 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, any Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) the Registrar in relation to Registered Notes, (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, (iv) one or more Calculation Agent(s) where the Conditions so require, and (v) 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), the 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 relative 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 the relevant place of presentation, 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 and 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 euro) which is a TARGET Business Day; or

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

8 Taxation

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 the PRC or the relevant tax jurisdiction of the Issuer specified hereon (a "**Tax Jurisdiction**") or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC up to and including the aggregate rate applicable on the date on which agreement is reached to issue the first Tranche of the Notes (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 receivable by them had no such withholding or deduction been required.

If the Issuer is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate or (ii) by or within a Tax Jurisdiction other than the PRC, the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as shall result in receipt by the Noteholders and the 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 a Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) Presentation more than 30 days after the Relevant Date: presented (or in respect of which the Certificate representing it is presented) 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 Tax Amounts on presenting it for payment on the thirtieth day

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. 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 Tax Amounts that may be payable under this Condition 8.

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 ("**Events of Default**") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

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

(b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 45 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Default:** (A) any other present or future Public External Indebtedness of the Issuer or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any actual default, event of default or the like (howsoever described), or (B) any such Public External Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, provided that the aggregate amount of the Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(e) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(f) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes.

11 Meeting of Noteholders and Modifications

(a) **Meetings of Noteholders:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) 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 a clear majority 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 Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (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, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in 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 Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 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 of Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

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 of 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 the 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 notes 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, the approvals from CBIRC in the case the Notes is issued by the Bank and the filing of the Notes under the PBOC Circular. For the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to 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 holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong. So long as the Notes are listed on The Stock Exchange of Hong Kong Limited and the rules of that Exchange so require, notices to holders of the Notes shall also be published in a daily newspaper with general circulation in Hong Kong (which is expected to be the South China Morning Post in Hong Kong). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

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.

15 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 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, 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.

16 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.

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 England are to have 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 ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England 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. This submission is made for the benefit of each of the holder of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Service of Process:** The Issuer irrevocably agrees to receive service of process at its branch, Agricultural Bank of China London Branch's registered office at 7th Floor, 1 Bartholomew Lane, London EC2N 2AX in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

THE GLOBAL CERTIFICATE

Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or a sub-custodian for the HKMA as operator of the CMU.

Upon the initial deposit of a Global Note with the Common Depositary or with a sub-custodian for the HKMA as operator of the CMU or registration of Registered Notes in the name of (i) any nominee for Euroclear and Clearstream, Luxembourg or (ii) the HKMA and delivery of the relative Global Certificate to the Common Depositary or the sub-custodian for the HKMA as operator of the CMU (as the case may be), Euroclear or Clearstream, Luxembourg or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled (in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the Fiscal Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the "C Rules" or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a permanent 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 (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Notes*" below, in part for Definitive Notes or, in the case of (i) below, Registered Notes:

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or 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 in fact does so or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

If the relevant Pricing Supplement states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2 may only be made in part:

(iii) if the relevant 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;

(iv) if principal in respect of any Notes is not paid when due; or

(v) with the prior consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Installment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; or (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of any Notes 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 Fiscal Agent is located and in the cities in which the relevant clearing systems are located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Notes contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, 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 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) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

Cancellation

Cancellation of any Note represented by a permanent Global Note or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate.

Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Installment Amounts (if any) thereon.

The Option of the Issuer

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes drawn or, in the case of Registered Notes, the holder of the Notes in respect of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note (in accordance with the standard procedures of the relevant clearing system) giving notice to the Fiscal Agent or (in respect of Notes represented by a Global Certificate) the Registrar or Transfer Agent or (in respect of Notes lodged with the CMU) the CMU Lodging and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note or Global Certificate to the Fiscal Agent, the relevant Registrar, a Transfer Agent or the CMU Lodging and Paying Agent (or, in each case, to a Paying Agent acting on their behalf), as the case may be, for notation.

Notices

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream, Luxembourg 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 Global Certificate 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 dispatch of such notice as holding interests in the relevant Global Note or Global Certificate.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

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:

Pricing Supplement dated [•]
Agricultural Bank of China Limited [[•] Branch]

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$15,000,000,000 Medium Term Note Programme

[Notification under Section 309B(1)(c) of the SFA: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures Act (Capital Market 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 Recommendation on Investment Products.][1]

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 ("**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 ("**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 (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.]

[*The following language applies if the Notes are to be listed on The Stock Exchange of Hong Kong Limited.*

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 and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (together, "**Professional Investors**")) only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

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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 Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") 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 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 or the Issuer 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 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.

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:		Agricultural Bank of China Limited [[•] Branch] [*Address*]
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.)]	[•]
	[(iii)]	Tax Jurisdiction	[•]
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)*]
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] *(NB: HKMA approval will be required in the case of Subordinated Notes)* [(further particulars specified below)]
13	Status of the Notes:	[Senior Notes/Subordinated Notes]
14	[NDRC approval(s)/reporting:]	The [Pre-Issuance NDRC Registration Certificate/NDRC Quota Letter] was issued on [•] The requisite information and documents in connection with the Notes shall be provided to the NDRC on or before [•]
15	Listing:	[•]/Other (*specify*)/None]
16	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	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]
18		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)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
	(iv)	Business Centre(s) (Condition 5(j)):	[•]
	(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
	(vi)	Interest Period Date(s):	[Not Applicable/specify dates] *(Not applicable unless different from Interest Payment Date)*
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[•]

	(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
		– 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)(A)):	
		– Floating Rate Option:	[•]
		– Designated Maturity:	[•]
		– Reset Date:	[•]
		– ISDA Definitions: (if different from those set out in the Conditions)	[2000/2006]
	(x)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Accrual Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
	(xi)	Margin(s):	[+/-] [•] per cent. per annum
	(xii)	Minimum Rate of Interest:	[•] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[•] per cent. per annum
	(xiv)	Day Count Fraction (Condition 5(j)):	[•]
	(xv)	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:	[•]
19	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:	[•]

20	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)):	[•]
21	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

22	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:	[•]
23	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:	[•]
24	Final Redemption Amount of each Note	[•] per Calculation Amount
25	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(a) or 10(b)) 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

26	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/Certificate exchangeable for Definitive Notes/Certificates in the limited circumstances specified in the permanent Global Note/Certificate]
27	Financial Centre(s) (Condition 7[(h)]) 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*]
28	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*]
29	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*]
30	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:	[•]
31	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
33	Other terms or special conditions:	[Not Applicable/*give details*][(7)]

DISTRIBUTION

34	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
35	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
36	U.S. Selling Restrictions	Reg. S Category 2; TEFRA D/TEFRA C/ TEFRA Not Applicable]
37	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

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

GENERAL

45	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [•], producing a sum of (for Notes not denominated in U.S. dollars):	[Not Applicable/U.S.$[•]]
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
47	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]

48	Private Bank Commission:	[In addition, the Issuer has agreed with the Joint Lead Managers that it will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement./Not Applicable] (*Delete as appropriate*)

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$[•] Medium Term Note Programme of Agricultural Bank of China Limited [[•] Branch.]

[STABILISING

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (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 assurance that the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action 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, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws 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]*.]

[USE OF PROCEEDS

[*To be specified if different from the use of proceeds in the Offering Circular*].]

RESPONSIBILITY

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

[If the Issuer is not the Hong Kong branch of Agricultural Bank of China Limited, by signing this Pricing Supplement and delivering it to the Fiscal Agent, the Issuer agrees to become a party to the Agency Agreement in place of the Hong Kong Branch (as defined therein).]

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 CMU: For 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, CNY0.005 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."

For Euroclear/Clearstream: For 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 CNY0.000001, CNY0.00000005 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.0000001, HK$0.00000005 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 temporary Global Note is exchangeable for definitives 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) 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.

(8) If any change is disclosed in the Pricing Supplement, it will 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.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Bank

As at 31 December 2019, the Bank had an authorised share capital of CN350.0 billion divided into 30.7 million H shares of CNY1.00 each and 319.2 million A shares of CNY1.00 each. As at the same date, The Bank had a total of 389,690 shareholders, including 22,819 holders of H shares and 366,871 holders of A shares.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 31 December 2019. This table should be read in conjunction with the audited consolidated financial statements of the Group as at 31 December 2019, including the notes thereto, included elsewhere in this Offering Circular.

	As at 31 December 2019	
	Actual	
	(Audited) *CNY* *(in millions)*	*(Unaudited)* *U.S.$[1]* *(in millions)*
Debt:[2]		
Debt securities issued:		
Bonds	349,978	50,271
Other debt instruments	482,345	69,285
Total debt	832,323	119,556
Equity:		
Ordinary shares	349,983	50,272
Preference shares	79,899	11,477
Capital reserve	173,556	24,930
Investment revaluation reserve	29,684	4,264
Surplus reserve	174,910	25,124
General reserve	277,016	39,791
Retained earnings	741,101	106,452
Foreign currency translation reserve	2,219	319
Non-controlling interests	11,407	1,639
Total equity	1,959,762	281,502
Total capitalisation[3]	2,792,085	401,058

Notes:

(1) The translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of CNY6.9618 to U.S.$1.00, which is the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors or the Federal Reserve System of the United States on 31 December 2019.

(2) As at 31 December 2019, in addition to debt, the Bank had other borrowed funds and liabilities, including borrowings from central banks, due to customers, deposits and placements from banks and other financial institutions, financial liabilities held for trading, derivative financial liabilities, financial assets sold under repurchase agreements and financial liabilities at fair value through profit or loss. See the Bank's reviewed consolidated financial interim statements as at 31 December 2019 and the related notes attached as F-pages to this Offering Circular for further details.

On 21 April 2020, the Bank issued the first tranche of the special financial bonds for loans to small and micro enterprises in China's national inter-bank bond market. The size of issue is CNY20 billion with a fixed coupon rate of 1.99 per cent. and a term of three years.

On 6 May 2020, the Bank issued tier-2 capital bonds in China's national inter-bank bond market. The size of issue is CNY40 billion with a fixed coupon rate of 3.1 per cent. and a term of 10 years. The Bank has a conditional right to redeem on the fifth anniversary of the issue date.

On 12 May 2020, the Bank issued "2020 Undated Capital Bonds (First Tranche) of Agricultural Bank of China Limited" in China's national inter-bank bond market. The size of issue is CNY85 billion. The coupon rate is 3.48 per cent. during the first five years and will be adjusted every five years.

(3) Total capitalisation equals total debt plus total equity.

Except as disclosed above, there has been no material adverse change in the total capitalisation and indebtedness of the Group, on a consolidated basis, since 31 December 2019.

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement, the net proceeds of any Notes issued under the Programme shall be used for the Issuer's general corporate purposes.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a leading commercial bank in China in terms of total assets, total loans and total deposits. As at 31 December 2017, 2018 and 2019, the Bank had total assets of CNY21,053.4 billion, CNY22,609.5 billion and CNY24,878.3 billion, respectively, and total loans and advances to customers of CNY10,720.6 billion, CNY11,940.7 billion and CNY13,360.2 billion, respectively. The Bank's total deposits due to customers amounted to CNY16,194.3 billion, CNY17,346.3 billion and CNY18,542.9 billion for the same periods respectively.

The Bank has one of the leading domestic distribution networks among the Large Commercial Banks in terms of the number of branch outlets. As at 31 December 2019, it had a total number of 23,149 domestic branches. Leveraging its extensive network, the Bank provides a wide range of banking products and services to its corporate and retail customers in China.

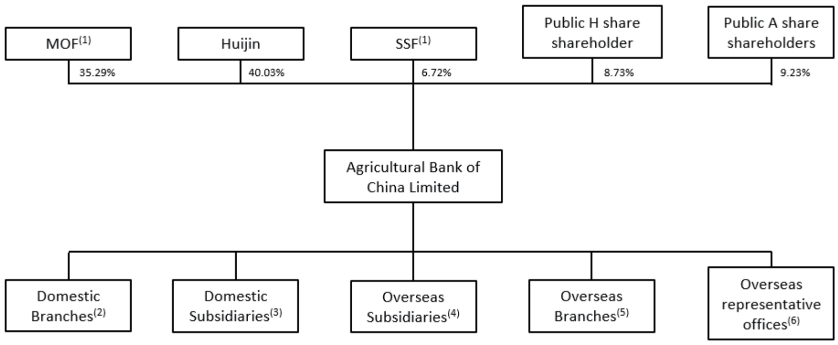
As a leading bank in China's Urban Areas, the Bank has benefited from China's strong economic growth in recent years, and by leveraging its extensive distribution network and large customer base, the Bank was able to further strengthen its market position in the Urban Areas.

The Bank is a leading provider of financial services in China's vast, fast-developing County Areas, with the largest number of domestic branch outlets among the Large Commercial Banks. The Bank refers to such banking business as the "County Area Banking Business"or "Sannong Banking Business". It believes that the established market leadership and vast distribution network of its County Area Banking Business enable it to continue to take advantage of the various growth opportunities arising from the rapid urbanisation and favourable economic and policy developments in the County Areas. As at 31 December 2017, 2018 and 2019, the Bank's loans and advances in the County Areas totalled CNY3,568.4 billion, CNY4,005.9 billion and CNY4,553.1 billion, respectively. The deposits taken by the Bank in the County Areas totalled CNY6,915.7 billion, CNY7,380.6 billion and CNY7,960.6 billion for the same periods, respectively.

The Bank believes that "Agricultural Bank of China"("中國農業銀行") is one of the most recognised financial services brands in China. The Financial Stability Board has included the Bank in the list of Global Systemically Important Banks for the past six consecutive years since 2014. In 2019, the Bank ranked No. 36 in Fortune's Global 500, and ranked No. 3 in *The Banker*'s "Top 1000 World Banks" list in terms of tier 1 capital. The Bank's issuer credit ratings assigned by Standard & Poor's Rating Services were A/A-1, long/short-term bank deposit ratings assigned by Moody's Investors Service were A1/P-1 and long/short-term issuer default ratings assigned by Fitch Ratings Ltd. were A/F1+.

Headquartered in Beijing with a nationwide distribution network, as at 31 December 2019, the Bank had 13 overseas branches in Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxembourg, Dubai, London, Macao and Hanoi, as well as four representative offices in Vancouver, Hanoi, Taipei and Sao Paulo. In addition, the Bank has a number of wholly-owned overseas subsidiaries, including ABC International Holdings Limited and China Agricultural Finance Co., Ltd.

The following chart sets out the Bank's group structure as at 31 December 2019:



Notes:

(1) Pursuant to the Notice on the Full Implementation of Transferring Part of State-owned Capital to Replenish Social Security Funds (Cai Zi [2019] No. 49) jointly issued by the MOF, Ministry of Human Resources and Social Security, State-owned Assets Supervision and Administration Commission of the State Council, State Taxation Administration, and the CSRC, the MOF transferred 13,723,909,471 shares to the state-owned capital transfer account of the SSF on one-off basis. In compliance with the Notice of the State Council on Printing and Distributing the Implementation Plan of Transferring Part of State-owned Capital to Replenish Social Security Funds (Guo Fa [2017] No. 49), the SSF shall be obligated to observe a lock-up period not less than three years from the date on which the shares are credited to the account. According to the Simplified Report on Changes in Equity provided by the SSF to the Bank, the SSF also held 805,709,096 H shares of the Bank.

(2) Includes the head office, the major clients department of the head office, seven business units directly managed by the head office, 37 tier-1 branches (including five branches directly managed by the head office), 390 tier-2 branches (including business departments of branches in capital cities of provinces and business departments of provincial branches), 3,445 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the head office and business departments of tier-2 branches), 19,216 foundation-level branch outlets and 52 other establishments.

(3) The Bank's major domestic subsidiaries include ABC-CA Fund Management Co., Ltd., ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd., ABC Financial Asset Investment Company Limited, Agricultural Bank of China Wealth Management Co., Ltd., ABC Hubei Hanchuan Rural Bank Limited Liability Company, ABC Hexigten Rural Bank Limited Liability Company, ABC Ansai Rural Bank Limited Liability Company, ABC Jixi Rural Bank Limited Liability Company, ABC Xiamen Tong'an Rural Bank Limited Liability Company and ABC Zhejiang Yongkang Rural Bank Limited Company.

(4) The Bank's major overseas subsidiaries include Agricultural Bank of China (UK) Limited, ABC International Holdings Limited, China Agricultural Finance Co., Ltd., Agricultural Bank of China (Luxembourg) Limited and Agricultural Bank of China (Moscow) Limited.

(5) Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxemburg, Dubai, London, Macau and Hanoi branches.

(6) Vancouver, Hanoi, Taipei and Sao Paulo representative offices.

RECENT DEVELOPMENT

Impact of COVID-19 on the Bank's Business

In December 2019, an outbreak of COVID-19, a viral respiratory illness, was first reported in Wuhan, Hubei Province, the PRC and has since spread to numerous other countries globally. Travel restrictions have been imposed in relation to several cities in the PRC as well as in other countries in an effort to curb the spread of COVID-19. Since the COVID-19 outbreak, the Bank coordinated the promotion of epidemic prevention and control and business operation, and supported spring farming preparation, as well as work resumption of enterprises. The Bank prioritised the financial needs of enterprises playing major roles in epidemic prevention and control, ensured stable and continuous financial services, and generally maintained the stability of business operation and operating results. As at 31 March 2020, 97.54% of the Bank's branch outlets resumed operations.

Issue of Special Financial Bonds for Loans to Small and Micro Enterprises in 2020 (First Tranche)

Pursuant to CBIRC's Approval on the Issue of Special Financial Bonds of Agricultural Bank of China Limited for Loans to Small and Micro Enterprises (Yin Bao Jian Fu [2020] No.180) and Affirmative Decision of Administration License of the People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2020] No.58), the Bank has been approved to issue financial bonds of an amount no more than CNY40 billion in China's national inter-bank bond market specially for granting loans to small and micro enterprises (the "**Special Financial Bonds**"), among which, no less than CNY20 billion will be used to grant loans to inclusive small and micro enterprises in the areas severely affected by the outbreak of COVID-19. On 21 April 2020, the first tranche of the Special Financial Bonds was issued. The size of issue is CNY20 billion with a fixed coupon rate of 1.99 per cent. and a term of three years.

Issue of Tier-2 Capital Bonds

On 6 May 2020, the Bank issued tier-2 capital bonds in China's national inter-bank bond market, with the approval from CBIRC and PBOC. The size of issue is CNY40 billion with a fixed coupon rate of 3.1 per cent. and a term of 10 years. The Bank has a conditional right to redeem on the fifth anniversary of the issue date.

Issue of Undated Capital Bonds in 2020 (First Tranche)

On 12 May 2020, the Bank issued "2020 Undated Capital Bonds (First Tranche) of Agricultural Bank of China Limited" (the "**Undated Capital Bonds**") in China's national inter-bank bond market, with the approval from CBIRC and PBOC. The size of issue of the Undated Capital Bonds is CNY85 billion. The coupon rate is 3.48 per cent. during the first five years and will be adjusted every five years.

Establishment of Agricultural Bank of China Financial Technology Co., Ltd.

On 28 July 2020, Agricultural Bank of China Financial Technology Co., Ltd. ("**ABC FinTech**"), was officially established by a subsidiary of the Bank. ABC FinTech has a registered capital of CNY600 million and is registered in Tongzhou District in Beijing, the PRC. ABC FinTech will specialise in commencing technological innovation, software research and development, product operation and technical consultation by way of FinTech.

THE BANK'S COMPETITIVE STRENGTHS

Balanced Urban and Rural Growth Strategy and improved financial services provided to Sannong and the real economy

With a significant market share and a broad presence in both Urban Areas and County Areas, the Bank is well-positioned to capitalise on China's future growth by providing comprehensive products and services to its customers through an integrated platform that covers both Urban Areas and County Areas. The Bank has also strengthened innovation with respect to serving Sannong through internet finance and accelerated the development and promotion of its e-commerce platform.

For the year ended 31 December 2019, Urban Areas and County Areas contributed 62.4 per cent. and 37.6 per cent. of the Bank's operating income, respectively. The Bank endeavours to maintain balanced development in both Urban Areas and County Areas to minimise volatility to its business arising from different policies applying to Urban Areas and County Areas.

Rapid urbanisation, increasing business flows between the Urban Areas and the County Areas and the continued shift to a more consumption-driven economy have stimulated strong growth in both Urban Areas and County Areas. The economic development in the County Areas has spurred rapid growth of the banking industry in these areas. Benefitting from its established leadership in both Urban Areas and County Areas, the Bank believes that it is well-positioned to capitalise on China's future growth in both Urban Areas and County Areas, and to broaden and deepen financial services for Sannong.

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

The Bank has a nationwide distribution network with a leading number of branch outlets among the Large Commercial Banks. As at 31 December 2019, the Bank had a total number of 23,149 domestic branch outlets, covering all of the provincial-level administrative regions, prefectural-level cities, and county-level administrative regions except Sansha. It maintains a strong presence and extensive network in economically developed areas. Such an extensive network enables the Bank to diversify risk and minimises potential adverse influence of regional economic risk on the overall business of the Bank. The Bank is well-positioned to benefit from lower penetration, less competition and higher loan pricing power in rural areas, which complements its urban banking business in economically developed areas.

As an important complement to and extension of its nationwide distribution network, the Bank has a multi-channel electronic banking transaction system consisting primarily of ATMs, Internet banking, telephone banking, mobile phone banking and non-cash transaction terminals. The Bank also has a leading electronic customer service system with Internet portals and a call centre which operates 24 hours a day, seven days a week.

The Bank's extensive nationwide branch outlet network, together with its multi-channel electronic banking system, provides it with a strong sales platform, which enables it to cross-sell its products and deliver high-quality, convenient and comprehensive services. It has also allowed the Bank to establish a leading position in major product and service offerings including deposits, lending, settlement, custody, agency services and bank cards.

Large and diversified customer base providing significant growth potential

Through the Bank's extensive multi-channel distribution network, the Bank serves a large and diversified corporate and retail customer base.

As at 31 December 2019, the Bank had approximately 5,997.8 thousand corporate banking customers, of which approximately 213 thousand had outstanding loans from the Bank. As at the same date, the Bank also had approximately 7,661.7 thousand million Renminbi-denominated corporate settlement accounts. In addition to expanding its customer base, the Bank has focused on optimising its customer base by developing relationships with large industry-leading companies, financial institutions and government agencies. Over the years, the Bank has established extensive strategic cooperative relationships with major enterprises in the leading business sectors in China, including major power grid companies, major power generation companies, major petroleum companies and major telecommunication operators. Such cooperation substantially extended the Bank's customer base to the leading enterprises of the energy, telecommunication, aviation, steel, automobile, chemical and electronic industries. The Bank has also established extensive strategic cooperative relationships with companies in the financial services sector as well as the central government departments and provincial governments. As at 31 December 2019, the Bank had approximately 446.7 thousand institutional customers and 615.8 thousand accounts, and the number of contracted customers for the Bank's third-party depositary services amounted to 43.5 million. The Bank continues to focus on expanding its institutional banking client base and strengthening its cooperation with other banks, securities firms, futures brokerage companies, governments and insurance companies.

The Bank believes that the demand for emerging financial services, such as wealth management, bancassurance and investment, will increase significantly as its customers' personal wealth continues to grow. The Bank believes that its large and diversified customer base will provide significant business growth opportunities, which will in turn enhance its competitive position across various business segments.

Strong deposit base providing stable and low-cost funding

The Bank believes that its large distribution network has enabled it to provide convenient services to its broad customer base across China and establish a strong brand recognition among its customers. The Bank has one of the largest customer deposit bases among all commercial banks in China, amounting to CNY18,542.9 billion as at 31 December 2019, representing a substantial market share among all PRC banking institutions. The Bank believes that its large deposit base provides it with access to stable source of funding at a relatively low cost, which enables it to grow its loan business and improve its financial results.

The Bank had CNY10,611.9 billion in domestic retail deposits as at 31 December 2019. At the same date, the Bank's domestic retail deposits accounted for 57.9 per cent. of its total deposits. This is a result of higher residential savings rate in the County Areas and the Bank's extensive branch network. The Bank believes that its advantage in the retail deposit base will be further strengthened due to the increasing wealth of the population in the County Areas through enlarged government fiscal subsidies to support agricultural development. In addition, the Bank has a higher percentage of demand deposits within its deposit mix. Domestic demand deposits accounted for 57.6 per cent. of its total deposits at 31 December 2019. Having deposits primarily consisting of demand deposits enables the Bank to maintain a lower cost of deposits compared to other commercial banks in China. For the years ended 31 December 2017, 2018 and 2019, the Bank's average cost of deposits was 1.28 per cent., 1.30 per cent. and 1.51 per cent. respectively.

Fast growing fee- and commission-based business

It has been an important strategic focus for the Bank to grow its fee- and commission-based business. The Bank's integrated branch and electronic banking network and increasingly diversified product and service portfolio have enabled it to successfully develop its fee- and commission-based business. For the year months ended 31 December 2019, the Bank's net fee and commission income was CNY86.9 billion. Through product innovation, resources sharing among the Bank's different business segments and cross-selling efforts, the Bank has been able to maintain its strengths in the settlement, asset custody, bank cards and bancassurance businesses.

As at 31 December 2019, the Bank's assets under custody reached CNY9,883.9 billion, among which, the value of its insurance assets under custody was the highest among all commercial banks in China. In addition, the Bank had a consistently high ranking in terms of the total number of bank cards issued as at the end of each year from 2006 to 2019. The Bank had issued approximately 1,059 million debit cards as at 31 December 2019 and its "Kins Card"("金穗卡") brand is widely recognised in the PRC. For the year ended 31 December 2019, the Bank maintained its leading position in the bancassurance market and continued to rank first among the four major banks in terms of income collected from the bancassurance business, and the Bank's market share in the four major banks recorded the highest level compared to corresponding periods in the last three years.

Furthermore, given the Bank's large and diversified customer base, it has experienced a rapid growth in certain new business areas. For the year ended 31 December 2019, fees and commissions income from its electronic banking service and agency service reached CNY25.2 billion and CNY19.8 billion, respectively, representing an increase of 28.4 per cent. and a decrease of 5.4 per cent. over the year ended 31 December 2018. In addition, the Bank has also taken initiatives in new business areas that it believes present strong growth potential, such as asset management, wealth management and investment banking. The Bank was one of the first banks to offer CBRC-approved Renminbi-denominated wealth management products. In addition, the Bank was one of the first banks licensed to provide custodian services to mutual funds.

Continuously enhanced risk management and internal control capabilities

In recent years, the Bank has strengthened its risk management and internal control capabilities by improving its policies and procedures and introducing advanced risk management tools. The Bank has adopted a prudent risk management strategy and continued to enhance its risk management organisational structure, in order to create a centralised risk management system and an independent and effective risk management function. The Bank implemented a comprehensive, balanced and effective risk management strategy, adhered to a prudent risk appetite, strengthened its comprehensive risk management framework and improved its comprehensive risk management system. The Bank also focused on risk management and enhanced risk management in key areas of credit risk, formulated policies for annual capital transactions and market risk management, optimised the system of market risk limit indicators, strengthened prevention and control of case and operational risks and conducted special assessments of counter business, third-party payment and other risks.

The Bank has also continued to enhance its credit risk management system. In this context, the Bank has adopted industry-specific credit guidelines and a customer list-based management system, and implemented a standardised authorisation and credit approval process, where credit applications are reviewed by dedicated professionals. The Bank has further refined its risk management tools and systems by adopting credit limits with respect to its exposure to borrowers, developing a risk reporting system, implementing a 12-category loan classification system and adopting a customer credit rating system for corporate loans. The Bank has developed a plan to implement the New Basel Capital Accord and upgrade its internal rating-based system for its customers. The Bank has also expanded the use of economic capital management tools from credit risk management to market risk and operational risk management, further reinforced the implementation and application of advanced capital management methods and conducted financial stability stress tests in coordination with the PBOC and the CBRC. In addition, the Bank has strengthened on-going monitoring and regular validation of its internal retail rating system and improved the accuracy and prudence of its rating system for non-retail clients and retail clients. The Bank also promoted the application of the Internal Models Approach and enhanced its compliance evaluation, as well as applied the Advanced Measurement Approach for operational risk to economic capital measurement and optimised its models in order to improve the stability and sensitivity of its economic capital models.

The Bank also established and improved its internal control and compliance management system and internal audit system. These systems have enabled it to enhance its internal control and compliance management capabilities, strengthen its designated internal audit function and reduce operational risks and incidences of fraud and other non-compliance.

Leading information technology platform

The Bank believes that it has one of the most advanced information technology platforms among all commercial banks in China. The Bank accomplished data centralisation in 2006 and has gradually established a centralised computer network system which, through its national data centre, covers nationwide branch outlets and links teller terminals throughout China. In 2010, the Bank completed the construction of a new-generation core banking system and IT infrastructure, core business system as well as basic data platform. In 2016, the Bank undertook the construction of key technology projects by developing three platforms for financial services, social life and e-commerce and launching various innovative financial products which utilize information technology such as e-accounts. The Bank refined its operation and credit risk monitoring systems, further integrated its operations, applications and support systems in Shanghai and Beijing and finished data input for its big data platform.

By establishing an information technology system which effectively integrates the Bank's customer service channels, including physical counters, internet banking, customer service system, phone banking, mobile phone banking and information platforms, the Bank is able to provide its management team with certain financial and operational data on a T+1 basis and better serve its customers in an efficient and effective manner. The Bank has also focused on calibrating its information systems to meet the requirements of its County Area Banking Business and strengthening its information technology capabilities in support of its continued expansion in the County Areas.

Experienced management team with a proven track record

The Bank has an energetic, experienced and entrepreneurial management team with an established proven track record in the financial services industry. The Bank's senior management team have on average over 20 years of professional experience in the financial industry. All members of the Bank's management team have in-depth knowledge of banking operations and management and, through their working experience with the Bank and at other Chinese financial institutions, have gained an in-depth understanding of China's macroeconomic environment, its banking industry and the financial system in China's County Areas in particular.

The Bank's experienced management team has demonstrated a track record of successfully implementing a series of transformational initiatives, including the Bank's financial restructuring and the improvement of the Bank's corporate governance and risk management. Under the leadership of its management team, the Bank has significantly improved its operations and financial results and is moving toward its goal of becoming a world-class commercial bank.

THE BANK'S STRATEGIES

By leveraging its leading positions in both Urban Areas and County Areas, the Bank believes it will become a world-class financial institution through the successful implementation of the following strategies.

Support the development of "One Belt and One Road" through global financial services

In alignment with the PRC government's "One Belt and One Road" policy, the Bank formulated the "Opinions on the Implementation of "One Belt and One Road" Strategy to support relevant projects, including international agricultural cooperation, infrastructures interconnectivity, investments in energy and resources. In particular, the opinions specified supporting policies on the establishment of overseas institutions, expansion of the out-bound business customer base and financial services system construction, to satisfy the financial needs of enterprises expanding overseas.

Further strengthen the Bank's leadership in the Urban Areas

The Bank plans to further strengthen its leadership in the Urban Areas by focusing on key customers and selected geographical regions and promoting innovative, high value-added products and services. As part of the Bank's overall strategy,

- The Bank plans to further develop its business in the more economically developed regions, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim, focusing on key cities and other areas with abundant financial resources, such as provincial capitals and regional centres.

- The Bank will continue to focus on large and high-quality customers in its corporate banking business, including industry leading companies, large state-owned enterprises and Chinese subsidiaries of global Fortune 500 companies, while maintaining its leadership in the SME segment. In addition, the Bank plans to tailor its sales and marketing efforts to industry sectors with significant growth potential.

- The Bank will further upgrade its outlets and strengthen its customer segmentation capabilities to enhance cross-selling in its retail banking business. The Bank aims to achieve higher returns through continued focus on high-growth business areas, such as wealth management and private banking.

Solidify the Bank's dominant position in the County Areas

The Bank believes that China's vast and fast-growing County Areas present significant growth potential and will be a key driver for China's long-term economic growth. The Bank has a business unit dedicated to the County Area banking market. The Bank intends to leverage its dominant market position and its first-mover advantage, to strengthen its presence and customer penetration in the County Areas, which the Bank believes will deliver more significant profit contribution. Specifically:

- The Bank intends to capture opportunities arising from the urbanisation and industrialisation process to provide customers in the County Areas, particularly industry-leading companies in the County Areas as well as their suppliers, customers and distributors, with comprehensive financial products and services.

- The Bank aims to meet the needs of mid- to high-end retail customers in the County Areas, and to leverage its Huinong Card (惠穗卡) to develop businesses related to new rural pension insurance and new rural cooperative medical insurance schemes.

- The Bank plans to leverage its extensive electronic distribution channels to expand its coverage in the County Areas, provide its customers in the County Areas with more convenient and user-friendly services and increase its operational efficiency in the County Areas.

- The Bank will continue to allocate additional resources to selected sub-branches in the County Areas to drive the growth of its business in the County Areas.

Improve financial services provided to Sannong and the real economy

With a focus on supporting the supply-side structural reform, the Bank will bolster the five key actions to "cut overcapacity, reduce inventory, deleverage, lower costs and bolster areas of weakness", specifically:

- The Bank will reduce total credit exposure to borrowers in certain industries with overcapacity and support the transformation and upgrading of enterprises.

- The Bank will implement differentiated approaches for business across the real estate industry, and strongly support the distinctive Anjiadai loan for rural households.

- The Bank will, through ABC Asset Management Co., Ltd., steadily facilitate debt-to-equity swaps in the market and actively provide equity financing to enterprises through wealth management-related financing, industrial funds and debt-equity combination financing.

- The Bank will strictly implement the relevant government policies and regulations on pricing of its services, control fee rates charged by the Bank and stabilize the cost of capital in rural areas.

- The Bank will innovate financing service models, which focus on major infrastructural projects of significance, corporate technological renovation and equipment upgrades, as well as mass entrepreneurship and innovation, to increase its financial supply.

THE BANK'S PRINCIPAL BUSINESSES

The Bank's business segments consist of corporate banking, retail banking, treasury operations and other operations. The following table sets forth, for the periods indicated, the Bank's operating income by business segments.

	For the year ended 31 December					
	2017		2018		2019	
(in CNY millions, except for percentages)	Amount	% of total	Amount	% of total	Amount	% of total
Corporate banking	249,333	45.9	274,658	45.6	271,719	43.2
Retail banking	205,930	37.9	233,801	38.8	239,963	38.1
Treasury operations	56,590	10.5	65,628	10.9	79,114	12.6
Other businesses	31,045	5.7	28,470	4.7	38,554	6.1

Corporate banking

Corporate banking constitutes the Bank's primary source of income and has consistently contributed more than 40 per cent. of its total operating income. The Bank offers a broad range of corporate banking products and services to corporations and other entities, including state-owned enterprises, private enterprises, foreign-invested enterprises and government agencies, which the Bank collectively refers to as its corporate banking customers. The Bank's corporate banking business consists primarily of corporate loans and deposits, small and micro enterprise banking business, institutional banking services, settlement and cash management, investment banking, trade financing and international settlement. Corporate banking accounted for 45.9 per cent., 45.6 per cent. and 43.2 per cent., of its total operating income in the years ended 31 December 2017, 2018 and 2019, respectively. The Bank's domestic corporate loans accounted for 57.4 per cent., 54.7 per cent. and 53.2 per cent., of its total loans, and its domestic corporate deposits accounted for 39.4 per cent., 38.3 per cent. and 37.6 per cent., of its total deposits from customers as at 31 December 2017, 2018 and 2019, respectively.

Customer base

As at 31 December 2019, the Bank had approximately 5,997.8 thousand corporate banking customers, of which approximately 213 thousand had outstanding loans.

As at 31 December 2019, the Bank's major corporate loan customers concentrated in sectors such as (i) manufacturing; (ii) transportation, logistics and postal services; (iii) real estate; (iv) leasing and commercial services and (v) production and supply of power, heat, gas and water; represented 16.9 per cent., 23.1 per cent., 9.8 per cent., 14.6 per cent. and 12.0 per cent. of its total corporate loans outstanding, respectively.

In addition to expanding its customer base, the Bank has focused on optimising the structure of its customer base by developing relationships with large state-owned enterprises, industry-leading companies and government agencies.

Major products and services

Transaction Banking

The Bank offers a range of transactional banking services including accounts and payment settlement, cash management and supply chain financing. In 2019, the Bank continued to develop scene-based corporate finance, strengthened product and business integration, and provided service solutions featuring "transaction + financing" for core customers and customers in their upstream and downstream of the industrial chains. The Bank also expanded channels to obtain customers and optimized business procedures to improve customer experience. As at 31 December 2019, the Bank's corporate RMB-denominated settlement accounts reached around 7.7 million. In 2019, the Bank implemented the development strategy of "Internet + Transaction + Financing" and developed online financing products. As at 31 December 2019, the Bank had approximately 3.2 million active transaction banking customers.

Institutional Banking

The Bank offers a comprehensive range of institutional banking services including inter-bank agency business cooperation arrangements, third-party depositary services and banking cooperation. While the Bank's institutional customers include the government and financial institutions, the Bank also provides institutional banking services with respect to people's livelihood. As at 31 December 2019, the Bank had approximately 446.7 thousand institutional customers and 615.8 thousand accounts. In 2019, in respect of financial services provided to the government, the Bank was the first bank to connect to the service platform for national government affairs. In terms of financial services with respect to people's livelihood, the Bank launched smart hospital and smart campus products. In respect of services provided to financial institutions, deposits from banks and financial institutions increased and the number of customers of third-party depositary services grew continuously. As at 31 December 2019, contracted customers for the Bank's third-party depositary services have amounted to 43.5 million.

Investment banking

Adhering to develop investment banking business to serve the real economy, the Bank provides investment banking services including bond financing, syndicated financing, M&A and restructuring, and asset securitization to its corporate customers. In 31 December 2019, the income of the Bank's investment banking business amounted to CNY8.6 billion.

The Bank supported the national key decisions and arrangements. The Bank established regional synergy centers to serve key areas such as the Guangdong-Hong Kong-Macao Greater Bay Area. The Bank also adopted diversified financing methods to support major projects and key reform fields such as mixed ownership reform of state-owned enterprises and leverage reduction. In 2019, the Bank supported the development of private enterprises through bond financing support instruments and debt financing plans with accumulative proceeds of nearly CNY100 billion. Further, for the year ended 31 December 2019, the balance of the Bank's syndicated loans exceeded CNY1 trillion and the balance of M&A loans remained over CNY100 billion. For the same period, the scale of asset securitization business and the underwriting amount of debt financing instruments has also increased. The Bank also focused on product innovation and promotion. In 2019, the Bank launched innovative products such as standby M&A loans, the first Green+Poverty Alleviation debt financing instrument and the first perpetual bonds with subordinated terms. For the same period, the Bank implemented a number of cross-border projects, such as cross-border M&A, international syndicates and Panda Bonds.

Retail banking

The Bank provides its retail banking customers with a broad range of products and services, including retail loans, bank cards, retail deposits, private banking business and other fee- and commission-based products and services.

For the years ended 31 December 2017, 2018 and 2019, the Bank's retail banking business generated operating income of CNY205.9 billion, CNY233.8 billion and CNY240.0 billion, respectively, representing 37.9 per cent., 38.8 per cent. and 38.1 per cent. of its total operating income for the same periods.

As at 31 December 2017, 2018 and 2019, the Bank had domestic retail deposits of CNY9,246.5 billion, CNY9,792.0 billion and CNY10,611.9 billion, representing 57.1 per cent., 57.1 per cent. and 57.9 per cent. of its total deposits, and outstanding domestic retail loans of CNY4,000.3 billion, CNY4,665.9 billion and CNY5,392.5 billion, representing 37.3 per cent., 39.1 per cent. and 40.4 per cent. of its total loans.

As at 31 December 2019, the Bank had issued 1,059 million debit cards. The Bank maintained a consistently high ranking among all commercial banks in China in terms of the total number of bank cards issued from 2006 to 2019.

Major products and services

Retail loans

As at 31 December 2017, 2018 and 2019, the Bank had a total of CNY4,000.3 billion, CNY4,665.9 billion and CNY5,392.5 billion, respectively, in domestic retail loans outstanding, which accounted for 37.3 per cent., 39.1 per cent. and 40.4 per cent. of its total loans.

The Bank provides its customers with floating-rate residential mortgage loans, fixed-rate residential mortgage loans and hybrid-rate residential mortgage loans. The Bank's residential mortgage loans are generally secured by the underlying property being purchased. As at 31 December 2017, 2018 and 2019, the Bank's residential mortgage loans outstanding amounted to CNY3,133.5 billion, CNY3,660.6 billion and CNY4,162.4 billion, respectively, which accounted for 78.4 per cent., 78.4 per cent. and 77.2 per cent. of its total domestic retail loans outstanding for the same periods.

The Bank provides a variety of personal consumption loans including personal credit lines, consumer auto loans, comprehensive consumer loans and retail loans secured by pledges. As at 31 December 2019, the Bank had CNY168.0 billion of personal consumption loans outstanding, representing 3.1 per cent. of its total domestic retail loans.

Loans to private businesses are generally granted to private business owners to meet their funding needs arising from their operations, primarily including loans to finance the operations of private businesses, commercial mortgage loans to private businesses and auto loans to private businesses. As at 31 December 2017, 2018 and 2019, the Bank had CNY204.7 billion, CNY215.6 billion and CNY264.3 billion in loans to private businesses outstanding, respectively, which accounted for 5.1 per cent., 4.6 per cent. and 4.9 per cent. of its total domestic retail loans outstanding for the same periods.

The Bank's credit card and quasi-credit card customers are allowed to withdraw or overdraft through its credit consumption function. As at 31 December 2017, 2018 and 2019, the outstanding overdraft amounts for the Bank's personal bank cards totalled CNY317.5 billion, CNY380.7 billion and CNY475.0 billion respectively, which accounted for 7.9 per cent., 8.2 per cent. and 8.8 per cent. of its total domestic retail loans outstanding for the same periods.

The Bank also offers loans to rural households. As at 31 December 2017, 2018 and 2019, the Bank's outstanding amount for loans to rural households was CNY206.0 million, CNY250.0 million and CNY322.0 million, respectively, which accounted for 5.2 per cent., 5.4 per cent. and 6.0 per cent. of its total domestic retail loans outstanding for the same periods.

Retail deposits

The Bank offers retail demand deposits and time deposits in Renminbi and foreign currencies to its retail banking customers. Retail demand deposits include general demand deposits and flexible-term deposits.

Retail time deposits consist of general time deposits, call deposits, education savings deposits, and deposits and withdrawals in lump sums, deposits in instalments while withdrawing in lump sums and time deposits with periodic interest payments that can be withdrawn on demand. The Bank currently offers regular time deposit products with terms ranging from three months to five years for Renminbi-denominated deposits and one month to two years for foreign currency-denominated deposits.

As at 31 December 2017, 2018 and 2019, the Bank had domestic retail deposits of CNY9,246.5 billion, CNY9,792.0 billion and CNY10,611.9 billion, which accounted for 57.1 per cent., 57.1 per cent. and 57.9 per cent., respectively, of its total deposits. The Bank is one of the leading commercial banks in China in terms of market share expansion.

Bank cards

The Bank offers integrated card products and services to personal customers under the brand name "Kins Card"("金穗卡"), which consists of Renminbi-denominated debit cards, credit cards, quasi-credit cards and dual-currency credit cards denominated in CNY and U.S. dollars. In 2019, the Bank issued the "rural vitalization theme card" for agricultural economic entities in County Areas including farmers, large-scale professional operator, and heads of agricultural cooperatives to provide them with better and more convenient financial services such as personal credit, consumption, payment and settlement, and exclusive preferential rights. The Bank also launched the "Market Card" for small and micro business owners. The Bank also cooperated with UnionPay to launch a number of consumption promotions for personal accounts covering convenience stores, supermarkets, online shopping, catering, travel, etc.

As at 31 December 2019, the Bank had issued 1,059 million debit cards. As at 31 December 2019, the Bank had cumulatively issued 120 million credit cards. For the year ended 31 December 2019, the total transaction volume for the Bank's credit cards reached CNY2.01 trillion. For the years ended 31 December 2017, 2018 and 2019, the net fees and commissions generated by the Bank's bank card business were CNY22.7 billion, CNY25.6 billion and CNY30.2 billion, respectively.

Private Banking Business

The Bank focuses on family trusts, insurance premium trust, charity trust and enhancing synergies between the domestic and overseas markets and facilitating cross-border financial services. As at 31 December 2019, the Bank had around 123,000 private banking customers and CNY1,404.0 billion of assets under management through private banking services. In 2019, the Bank launched the "exclusive loan" service for private banking customers and developed cross-border referral business in key areas such as Guangdong, Hong Kong and Macao. As at 31 December 2019, the existing scale of exclusive products of the Bank amounted to CNY320.5 billion.

Treasury operations

The Bank's treasury operations consist primarily of (i) money market activities, (ii) trading book activities, and (iii) banking book activities. In conducting its treasury operations, the Bank seeks to ensure its liquidity and achieves a balance between returns and risks on its investment portfolio, taking into consideration various factors including the market and macroeconomic conditions. As at 31 December 2019, operating income from the Bank's treasury operations was CNY79.1 billion.

Money market activities

The Bank's money market activities primarily consist of (i) inter-bank money market activities, repurchase and reverse repurchase transactions and (ii) public market bidding, including bidding for repurchase and reverse repurchase transactions by the PBOC, PBOC bills and national treasury cash administration. The securities underlying the Bank's inter-bank repurchase and reverse repurchase transactions are predominantly Renminbi-denominated PRC government and policy bank bonds, bank acceptance bills and PBOC bills, with a portion of foreign currency-denominated bonds primarily issued by foreign governments and agencies.

The Bank was one of the first banks to be approved by the PBOC to provide SHIBOR quotes. As one of the SHIBOR-quoting banks, the Bank provides daily quotes based on its own liquidity and capital supply and demand. For the year ended 31 December 2019, the Bank's Renminbi-denominated financing volume was CNY37,927.5 billion.

Trading Book Activities

The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

Banking Book Activities

In 2019, by effectively analysing the interest rate trend in the bonds market and monetary policies and considering the profiles of bond supply and maturity of portfolios, the Bank adjusted structures of investment portfolios to reduce risk and increase yields. Meanwhile, considering various factors such as yield at maturity and income after taxation, the Bank invested in securities with higher investment value, continued investing in government bonds such as local government bonds and invested in credit bonds in line with national strategies.

Asset Management

The Bank offers asset management products and services, such as wealth management, custody service, pension, precious metals, treasury transactions on behalf of customers, agency insurance business, agency distribution of fund products and agency sales of PRC government bonds.

Wealth management

The Bank has a comprehensive portfolio of products for its wealth management services. The Bank established a wealth management subsidiary, Agricultural Bank of China Wealth Management Co., Ltd, in 2019. The Bank's wealth management products received honours such as the "Golden Bull Wealth Management Bank" by China Securities Journal in 2018, "Gold Finance – Asset Management Excellence Award" by Shanghai Securities News and the "Best Asset Management Bank of 2019" awarded by the 21st Century Business Herald.

Custody Service

As at 31 December 2019, the Bank had CNY9,883.9 billion of assets under custody and its commission income from custody service and other fiduciary services amounted to CNY3,899 million for the year ended 31 December 2019.

Pension

As at 31 December 2019, pension funds under the Bank's custody amounted to CNY645.0 billion.

Precious metals

The Bank has steadily developed its precious metal agency business. To meet the demands of different customers for risk hedging and investments, the Bank offers precious metals forward trading and precious metals leasing services for its customers, accelerated the research and development of agency retail spot deferred trading system and gold passbook product, and launched the system development for retail paper gold (silver) business. Targeting retail, corporate and institutional customers, the Bank sped up the establishment of precious metal business system, focusing on the development of products, financing and services. In 2014, the Bank was part of the first batch of banks to obtain international membership at the Shanghai Gold Exchange and to qualify for settlement on its international board. For the year ended 31 December 2019, the Bank traded 4,580.2 tons of gold and 82,065.9 tons of silver for its own account and on behalf of its customers.

Treasury transactions on behalf of customers

The Bank is one of the first commercial banks in China approved to provide forward settlement services and other derivative financial products. The Bank also engages in a broad range of treasury transactions on behalf of its corporate and retail banking customers. In addition, the Bank provides settlement, foreign currency trading, foreign currency derivatives trading and treasury services on behalf of its customers through its treasury operations. The Bank actively developed Renminbi settlement services to capitalise on the appreciation of CNY. For the year ended 31 December 2019, the transaction volume of the Bank's foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers amounted to U.S.$ 382.7 billion.

The Bank's spot transaction volume via "Bond Connect" was over CNY340 billion for the year ended 31 December 2019, ranking forefront in the market. Through "Zhaishibao", the Bank's bond investment platform of medium and small investors, the Bank distributed bonds amounting to CNY70 billion at the primary market and traded more than CNY120 billion at the secondary market in the year ended 31 December 2019.

Agency insurance business

The Bank maintained a leading position in the agency insurance industry. The Bank's income from the agency insurance business with regular premium for the year ended 31 December 2019 had a year-on-year increase of 27.2 per cent..

Agency distribution of fund products

In collaboration with fund management companies and securities firms, the Bank distributes various fund products as an agent. For the year ended 31 December 2019, the number of funds distributed by the Bank amounted to 1,804, and the volume of non-monetary funds distributed increased by 44.8 per cent. as compared to 2018.

Agency sales of PRC government bonds

For the year ended 31 December 2019, the Bank distributed 22 tranches of savings PRC government bonds as an agent in the amount of CNY54.7 billion, including 14 tranches of savings PRC government bonds (in electronic form) of CNY31.4 billion and eight tranches of savings PRC government bonds (in certificate form) of CNY23.3 billion.

Internet Finance

The Bank continues to transform and upgrade its internet finance capability. The Bank was awarded "Outstanding FinTech Bank of 2019" by 21st Century Business Heral as well as the "2019 Outstanding Innovation in Finance Technology Award" by Financial Computerizing.

Smart Mobile Banking

The Bank actively develops smart mobile bank to increase the number of active mobile banking customers and continues to improve customer experience. The Bank also launched "T+0" asset-liability profiles that provides customers one-click access to their financial status online. The Bank also introduced other technologies including face recognition to assist its customers in the account opening process. The Bank launched "Yinliduo", a digital product which targets public investors. Customers are able to submit online applications to issue deposit certificates and reserve and inquire about "Yinliduo" through the Bank's various online functions. As at 31 December 2019, the number of personal mobile banking customers reached 310 million, representing an increase of 20.6 per cent. as compared to 31 December 2018. The number of online transactions and transaction volume for the year ended 31 December 2019 was CNY17,412 million and CNY61.8 trillion, respectively, representing a year-on-year increase of 28.6 per cent. and 26.2 per cent., respectively.

Corporate Service Platform

The Bank improved and integrated its corporate service platform to provide a "one stop" service. The platform provides digital services such as "E-profile", "E-signing", "E-setup" and other "E-series" functions. The platform is connected with the Bank's payment center to encourage corporate payment services via corporate internet banking and mobile banking. The Platform also provides functions including multi-level account books, wealth management, notes, bonds, insurance, electronic receipts and account enquiry. As at 31 December 2019, the number of customers of the Bank's corporate banking service platform and number of corporate mobile banking customers reached 7.2 million and 1.8 million, respectively, representing an increase of 16.6 per cent. and 97.8 per cent., respectively as compared to 31 December 2018. The transaction volume of CNY180.8 trillion for the year ended 31 December 2019.

Online Credit

The Bank's online credit products cover three main business lines, retail, small and micro enterprise and Sannong. The Bank also continues to focus on its four major sub-brand product systems including "ABC Personal E-loan", "ABC Small and Micro Enterprise E-loan", "ABC Huinong E-loan" and "ABC Industrial E-loan". As at 31 December 2019, the balance of the Bank's online credit reached CNY589.4 billion, representing an increase of CNY 372.1 billion compared to 31 December 2018.

Open Banking and Scene-based Finance

The Bank developed an open banking platform. The platform integrates external services, internal management and gateway access, which could provide whole-process and one-stop online financial services. The Bank could export more than 300 services in six categories, including user authentication, account service, payment and settlement, credit card, fund and wealth management and information service by comprehensive application of API, SDK, H5 and other technologies and integration of existing accesses.

The Bank built a financial service brand "ABC Wisdom+" to promote three types of scene-based financial services, including government affairs and people's livelihood, consumption and retail and industrial chains. The Bank expanded its public utility payment services, the transaction amount of the payment center for the year ended 31 December 2019 exceeded CNY100 billion.

Inclusive Finance

The Bank offers inclusive loans to small and micro enterprises. In 2019, the Bank cooperated with national and local government affairs service platforms and national comprehensive credit service platform for small and micro enterprises financing to build an open system for inclusive finance. The Bank also improved its "ABC E-loan" digital product system, which comprised a product series "ABC Small and Mircro E-loan" to provide convenient online credit to small and micro enterprises. As at 31 December 2019, the balance of our inclusive loans to small and micro enterprises amounted to CNY592.3 billion. The number of customers with outstanding loans was 1.1 million. For the year ended 31 December 2019, the average yield of loans cumulatively granted was 4.7 per cent., while the comprehensive financing cost born by the Bank's customer decreased by 1.2 per cent..

Green Finance

The Bank is a major proponent and promoter of green finance in China. In 2017, the Bank was awarded "The Best Green Domestic National Commercial Bank in China" as well as "The Best Green Chinese Bank in Overseas Markets" by Asia Money.

Green Credit

As at 31 December 2019, the balance of loans of the Bank's green credits business was CNY1,191.0 billion.

Green credit is an important part of the Bank's business development and credit structure adjustment. The Bank actively supports green economy fields such as ecological conservation, clean energy, energy saving and environmental protection, circular economy, pollution treatment and comprehensive utilisation of resources. The Bank exercises strict control over loans to industries with high energy consumption, high pollution or overcapacity. The Bank factors the prevention of environmental and social risk into the whole-process management of credit business. As part of the Bank's credit review, it requires that its customers have in place comprehensive and lawful measures for controlling environmental and social risks, and that its customers are in compliance with such measures. The Bank does not provide credit to customers who do not meet the national standards in respect of environment, energy, technology and safety. The authority to approve credit to industries with severe overcapacity was transferred to the head office. The Bank formulates annual plans to withdraw from offering services and credit to certain customers operating in industries with high energy consumption, high pollution or overcapacity.

Use of Proceeds from Green Financial Bonds

On 13 October 2015, the Bank issued green financial bonds at an equivalent of USD1 billion on the London Stock Exchange. As at 31 December 2019, other than the 5-year USD bond, the 3-year USD bond and 2-year RMB bond were already matured. The net proceeds from the green financial bonds had been fully invested in two categories of green industry projects including clean transportation and renewable energy. The estimated environmental benefits from the investment of such net proceeds in renewable energy projects were alternative to fossil energy of 1.3 million tons per year and reduction in carbon dioxide emission of 3.1 million tons per year.

The Bank actively engages in the underwriting and issuance of green bonds to support the healthy development of the "green" real economy. All the proceeds raised by the Bank from the issuance of dual currency green bonds in the amount of U.S.$995 million in October 2015 in London, U.K. were invested in 14 green projects relating to clean transportation, wind power generation, photovoltaic power generation and biomass power generation, with a total investment amount of CNY6.3 billion.

In 2017, the Bank successively underwrote ten green financial bonds of CNY4.0 billion, including Hebei Financial Leasing, Huarong Financial Leasing, Bank of Beijing, Bank of Nanjing, among other things, with CNY38.3 billion being raised. The successful issuance of green medium-term note worth CNY2 billion for China Three Gorges Corporation to finance its offshore wind power projects represented the Bank's first green debt instrument for non-financial enterprise. These projects followed the Green Bond Principles, which are generally accepted throughout the world and were reviewed preliminarily by a qualified third-party certification authority.

Green Investment Banking

The Bank incorporates the "green" concept into all types of products and services of the investment banking business and were committed to developing into a "leading bank in green investment banking" with leading service model, product system and market share. In 2019, the Bank took part in raising more than CNY90 billion through green asset securitization, green bonds, green syndicated loans, green M&A and other means, which were invested in areas such as clean energy, green transportation, pollution control and sewage treatment, etc. The Bank is dedicated to green investment banking innovation. The Bank launched a green leasing asset securitisation product and issued the first Green+Poverty Alleviation and green airport debt financing instrument.

Overseas operations

The Bank conducts its overseas operations through its overseas branches, representative offices and subsidiaries. As at 31 December 2019, the Bank had a total of 13 overseas branches, including branches in Hong Kong, Singapore, Seoul, New York, Dubai International Financial Centre (DIFC), Tokyo, Frankfurt, Sydney, Luxemburg, Dubai, London, Macao and Hanoi, and four overseas representative offices in Vancouver, Hanoi, Taipei and Sao Paulo.

ABC International Holdings Limited and China Agriculture Finance Co., Ltd. are among the Bank's wholly-owned subsidiaries incorporated in Hong Kong. ABC International Holdings Limited engages in investment banking activities through its operating subsidiaries, primarily corporate finance, securities brokerage, principal investments and fund management. At 31 December 2019, the total assets and net assets of ABC International Holdings Limited amounted to HKD39,389 million and HKD8,383 million, respectively. The Bank has three additional overseas subsidiaries, Agricultural Bank of China (UK) Limited, Agricultural Bank of China (Luxembourg) Limited and Agricultural Bank of China (Moscow) Limited.

The Bank's overseas representative offices do not conduct business operations, and they primarily carry out liaison and information collection activities.

Products and services pricing policy

The interest rates the Bank charges on its Renminbi-denominated loans are generally regulated by the PBOC. Effective on 20 July 2013, the PBOC removed the lower limit for new loans provided by commercial banks, except for new residential mortgage loans. With respect to interest rates for residential mortgage loans, the lowest interest rates the Bank can charge on residential mortgage loans is 70 per cent. of the PBOC benchmark interest rate of the same term. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates on such loans.

The PBOC promulgated the Notice of Lowering the RMB Benchmark Lending and Deposit Rates for Financial Institution and Further Promoting the Interest Rate Liberation Reform on 23 October 2015, which removed the upper limits on the deposit interest rates for the commercial bank. The Bank is permitted to provide negotiated time deposits to insurance companies, the National Council for Social Security Fund and Postal Savings Bank of China under certain circumstances. The Bank is permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.$3 million or equivalent.

With respect to fee- and commission-based business, certain services are subject to government pricing guidelines, such as basic Renminbi settlement services specified by the CBRC and the PBOC. The Bank's Asset and Liability Management Committee is responsible for determining its pricing policies. In compliance with the provisions of applicable regulatory requirements, the Bank prices its products based on various criteria, such as the risk profile of its assets, an individual customer's contribution to its business, its costs, the expected risk- and cost-adjusted returns and its internal fund pricing benchmarks. In addition, the Bank considers general market conditions and the prices for similar products and services offered by its competitors.

Currently, the Bank's tier-1 branches have implemented centralised treasury operations. Subject to the approval of the Bank's Asset and Liability Management Committee, the Bank's Asset and Liability Management Department determines the Bank's internal transfer pricing benchmarks based on a number of factors, including prevailing interest rate trends in China's capital markets, the interest rate structure of the Bank's deposits and loans, and the strategies and objectives set by the Bank's Asset and Liability Management Committee.

The Bank's Fee- and Commission-based Business Management Committee is responsible for the development of, and pricing policies applicable to, the Bank's fee- and commission-based business. In principle, the Bank's Fee- and Commission-based Business Management Committee adjusts the prices of fee-and commission-based products annually based on several factors, such as the Bank's fee collection rate and changing market conditions.

Cross-border financial service

Adhering to the national strategy of "Opening-up" and in support of the "Belt and Road Initiative", RMB internationalization and establishment of free trade zone, the Bank offered cross-border financial services including international settlement and trade financing. to support transformation and upgrading of foreign trade and investment. The Bank cooperated with China Export & Credit Insurance Corporation, policy banks and banks in areas along the Belt and Road. Supporting the development of the offshore RMB market, the Bank also focused on its cross-border RMB business, with 19 thousand customers in 2019. As at 31 December 2019, the total assets of the Bank's overseas branches and subsidiaries reached USD140.8 billion. For the year ended 31 December 2019, net profit of the Bank's overseas branches and subsidiaries amounted USD0.6 billion.

Integrated operation

The Bank established an integrated operation platform covering fund management, securities and investment banking, financial leasing, life insurance, debt-to-equity swap and wealth management business. In 2019, six of the Bank's subsidiaries namely ABC-CA Fund Management Co., Ltd., ABC International Holdings Limited, ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd., ABC Financial Asset Investment Co., Ltd. and Agricultural Bank of China Wealth Management Co., Ltd., operated with regard to the Bank's strategy to achieve integrated operation.

Integrated operation enabled the Bank to (i) promote product transformation and enrich its product series, (ii) improve management of customers, (iii) enhance research and investment capabilities, (iv) meet diversified needs of customers, (v) centralise trading system to support investment operations, (vi) enhance level of risk control and improve risk management, and (vii) improve IT system and operation management system.

Distribution channels

The Bank's distribution network consisted of 23,149 domestic branch and entities nationwide as at 31 December 2019 and is complemented by comprehensive electronic banking channels. The Bank provides its customers with convenient services through its multi-channel distribution network.

Branch outlets

As at 31 December 2019, the Bank had 23,149 domestic branch outlets, including the head office, the major clients department of the head office, seven business units directly managed by the head office, 37 tier-1 branches (including five branches directly managed by the head office), 390 tier-2 branches (including business departments of branches in capital cities of provinces and business departments of provincial branches), 3,445 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the head office and business departments of tier-2 branches), 19,216 foundation-level branch outlets and 52 other establishments. The Bank's head office is located in Beijing and is responsible for the overall decision-making and management of the Bank. The Bank's tier-1 branches are located in capital cities of provinces, autonomous regions and directly-controlled municipalities in China. The tier-1 branches serve as the regional head office, managing all the branch outlets in the respective regions and reporting directly to the Bank's head office. The Bank's tier-2 branches are generally located in prefectural-level cities within China's provinces and autonomous regions. The tier-2 branches report to the respective tier-1 branches in each of the regions. In addition to carrying out their own operations, the Bank's tier-2 branches are also responsible for the management of lower-tier branch outlets. The Bank's tier-1 sub-branches are primarily responsible for the business operations and management of outlets and report to the tier-2 branches directly above them. The Bank's other establishments are primarily branch outlets that provide financial services directly to customers but are not classified as any of the above categories.

The Bank's branch outlets cover all of the provincial-level administrative regions, prefectural-level cities, and county-level administrative regions except Sansha. The Bank believes the Bank is the only large commercial bank to have branch outlets covering all of the cities and most of the counties in China.

As at 31 December 2019, the percentage of the Bank's operating income from County Areas and Urban Areas amounted to 37.6 per cent. and 62.4 per cent., respectively. The following table sets forth, for the periods indicated, the Bank's domestic branch outlets by region.

	For the year ended 31 December					
	2017		2018		2019	
Area	Number	% of total	Number	% of total	Number	% of total
Head office (1)	8	0.0	9	0.0	9	0.0
Yangtze River Delta	3,100	13.1	3,069	13.1	3,024	13.1
Pearl River Delta	2,546	10.8	2,542	10.9	2,500	10.8

Bohai Rim	3,403	14.4	3,357	14.4	3,317	14.3
Central China	5,268	22.2	5,228	22.4	5,203	22.5
Northeastern China	2,287	9.7	2,275	9.7	2,259	9.8
Western China	7,049	29.8	6,901	29.5	6,837	29.5
Total	23,661	100.00	23,881	100.0	23,149	100.00

Note:

(1) Includes head office, business departments and credit card centre serving VIP customers and major customers respectively.

The Bank accelerated upgrading branch outlets, standardised the image of branch outlets, established model branch outlets and wealth management centres and launched the new standard for the branches' image. The Bank has optimised the management procedures for the classification, standardisation and establishment of branch outlets. The Bank also accelerated the development and promotion of information management, intelligent management system and other transformation application systems. The Bank focused on "Four Reductions, Two Improvements and One Modification" (i.e., reduction in areas of branch outlets, equipment, counter staff and cost, improvements in capabilities of marketing and risk management and control and modification of the Bank's operational systems and processes). As at 31 December 2019, all branch outlets completed intelligent transformation, approximately 17,600 cash service counters had been removed and approximately 24,100 counter service staff had been transferred to marketing service positions within the Bank.

Mobile banking

The Bank's mobile banking platform consists of both retail mobile banking and corporate mobile banking systems. Financial services offered through the Bank's mobile banking platform cover deposits, loans, transfer, investment, wealth management and credit cards. As at 31 December 2019, the Bank had 310 million personal mobile banking customers and 1.8 million corporate mobile banking customers, which recorded a transaction volume of CNY61.8 trillion and CNY1.2 trillion for the year ended 31 December 2019, respectively.

Internet Banking

The Bank's internet banking platform consists of both retail internet banking and corporate internet banking systems. The Bank's retail internet banking products and services include registration by customers of other banks, online wealth management, online financing and quick authentication, while the Bank's corporate internet banking products and services include cash management, investment and wealth management and international business. As at 31 December 2019, the Bank has 312 million registered customers on personal internet banking and 7.2 million corporate internet banking customers, which recorded a transaction volume of CNY33.6 trillion and CNY180.8 trillion for the year ended 31 December 2019, respectively.

Self-service banking

In 2016, the Bank continuously strengthened its basic trading platform and marketing support platform to improve the capabilities of its self-service channels in serving customers and promoting products to consumers, optimise operations and management and promote intelligent self-service banking business. The Bank improved the application process of EMV international cards and began offering cash withdrawal services for international cards. The Bank also improved the application process of contact-less IC cards to provide support for the Quick Pass mobile payment (雲閃付) and other mobile payment products. The Bank also integrated various new functions like insurance agency and settlement and sales of foreign exchange into self-service banking terminals with a view to expanding the variety of payment services and promoted the lottery marketing system for self-service banking terminals to improve the capability of targeted marketing.

As at 31 December 2019, the Bank had 83.8 thousand units of cash-related self-service banking facilities and 35.5 thousand units of self-service banking facilities in service, the number of daily average transactions was 17.74 million for the year ended 31 December 2019.

Consumer interest protection

The Bank integrated customer interests protection in various aspects of corporate governance and included it into its business development strategy and corporate culture. The Bank formulated or revised relevant rules on consumer interests protection. It also implemented the examination mechanism for consumer interests protection in relation to products and services to ensure fair, just and honest treatment for consumers during various stages of products and services, including design and development, pricing management and formulation of agreements. The Bank carried out the "Year of Services Improvement for Transformation" activity and focused on the financial service needs of special consumer groups. The Bank also strengthened the management on complaints of customers and advanced the implementation of the industrial standard related to classification of complaints from financial consumers. Moreover, it maintained open channels for our customers to voice, and optimized synergy of customer service systems to improve the normalization and standardization level of complaints management. The Bank responded to customers' demands promptly and promoted the effective operation of the complaint handling mechanism. The Bank also publicized and popularized financial knowledge through multiple channels and forms on a regular basis. It has launched over 46,000 activities to popularize financial knowledge, in which over 22,000 branch outlets and over 0.35 million employees were engaged. These activities reached over 70 million persons.

On the other hand, the Bank engaged external professional advisory agencies to take various measures including formulation of bank-wide privacy policies, improving internal management policies, improving technical protection systems and improving trainings on data security, in order to ensure the security of customer information.

FINTECH

Information technology is at the core of the Bank's competitiveness. The Bank focuses on the development of its information technology capabilities and has established an Information Technology Development Committee under its senior management. The Bank has also developed an IT development decision-making system to meet its operational needs as well as the IT management system and capabilities to provide comprehensive support to its business operations.

The Bank developed a centralised computer network system in 2006 which, through the Shanghai data centre, covers all of the Bank's domestic branch outlets except a small number of branch outlets in the Tibet Autonomous Region and links teller terminals throughout China. Only a small number of branch outlets located in the Tibet Autonomous Region have not been linked to the central network system due to a number of constraints including the lack of sufficient power and telecommunication infrastructure at these remote locations. Transactions at these branch outlets, typically small in volume, are manually recorded and then the financial accounts of these branch outlets are entered into the system on a monthly basis.

With the solid foundation of its information technology system, the Bank is able to strengthen the tracking, research and introduction of frontier technologies related to Fintech. Over the year 2019, focusing on serving "Sannong" and the real economy, and prevention and mitigation of financial risks, the Bank increased FinTech innovations and application to boost innovations in products, services, and business models to implement its digital transformation strategy. For the year ended 31 December 2019, the total investment in information technology amounted to CNY12.79 billion.

Fintech innovation

In respect of application of mobile internet technology, the Bank completed iteration of "Chunfen Version" (version 4.0), "Mangzhong Version" (version 4.1) and the version integrating new and old frameworks (version 4.2) of mobile banking and provided special service zones for private banking and Tibetan-based service and other special financial services for particular customer groups or special regions. Further, the Bank applied AI technology in wealth management product marketing and early warning for customer loss. In respect of block chain technology, the Bank launched the first pension consortium block chain in China and jointly rolled out an application system for the pension block chain with Taiping Pension Company Limited, which shortened processing time from 12 days to 3 days. The Bank also launched "E-account", an online supply chain financing product, providing core enterprises and suppliers on supply-chains with whole-process online financial services, covering signing, division, transfer, factoring financing and collection and payment at maturity of receivables. Moreover, in respect of application of Big Data technology, the Bank upgraded and expanded the Big Data platform, promoted the application of the data analysis and mining platform and the branch-based data mart, and launched the management cockpit system to assist managers at all levels with operation decision-making by visible core indicators. In respect of application of cloud computing, the Bank has commenced the operation of its cloud platform in Beijing and Shanghai, with 41 application systems launched. In respect of cyber security, in addition to the introduction of Web application firewalls, server intrusion prevention and threat intelligence analysis platform, the Bank has also implemented a platform for situation awareness, forming 71 set of rules to improve detectability of cyber security attacks. In 2019, the Bank was awarded the "2019 Outstanding Innovation in Finance Technology Award" by Financial Computerizing and the "Outstanding FinTech Bank of 2019" by 21st Century Business Herald.

Improvement of technological level of operation and management

The Bank promoted the smart credit 2.0 project and launched the system of special seal for electronic loan contract, carrying out the whole process of operation electronically and shortening the time for processing a single loan to less than 20 minutes. The Bank extended the application of its mobile credit system (Mobile C3), featuring mobile approval, information inquiry and onsite operation, to three branches including Tokyo, Seoul and Macao. The Bank also built a bank-wide platform for monitoring and prevention of cases, achieving early warning of and timely response to potential risks of cases.

Information system

The Bank's information system covers all aspects of its business. It consists of six application systems, including its core business system, front office application system, channel application system, internal management system, marketing analysis system and office automation system. The Bank promoted construction of the "two cities and three centers" project and established a disaster recovery system covering all important information systems. The Bank promoted network construction for channel domain covering all branch outlets, adopting technology including segment routing and software-defined WAN. The Bank also started construction of the integrated and operation platform based on the idea of "one portal (unified portal), one center (configuration center) and four platforms (platforms of monitoring, management, operation and operation and maintenance data analysis"). For the year ended 31 December 2019, the average transaction volume per working day of our core operation system reached 699 million, while the highest daily transaction volume reached 880 million. The Bank's information system was sustainable in providing continuous and stable services. In 2018, the Bank was awarded "The First Prize of the Science and Technology Development of People's Bank of China in 2018 (Two-site and three-center project based on remote disaster recovery)" by People's Bank of China.

IT RISK MANAGEMENT

The Bank's IT risk management is coordinated by an operational risk management committee, with responsibilities allocated to the information technology department, risk management department, audit office and internal compliance department. The scope of the Bank's IT risk management also covers security, personnel, network, research and development, operation and maintenance, emergency response and outsourcing.

The Bank has adopted IT safety security measures, including firewalls, transmission encryption, intrusion detection and centralised authentication. The Bank's Shanghai branch and the IT management department and the software research and development centre at the Bank's head office obtained the Information Safety Administration International Certification (ISO 27001) in recognition of the enhanced safety of the Bank's IT system.

In addition, the Bank has established a dedicated disaster recovery management unit and constructed a comprehensive disaster recovery management system to protect its data centre, tier-1 branches and tier-2 branches. The Bank's core production system is located at the Shanghai data centre, with the disaster recovery testing centre at Beijing serving as a disaster recovery function for the core production system and core operating data. The Bank's disaster recovery system enables its branches to link smoothly to its Beijing disaster recovery testing centre if a disaster occurs at the Shanghai data centre.

Since 2013, the Bank has launched a number of key IT projects to improve its financial services and financial management, including establishing additional channels for mobile banking and increasing the functionality of its mobile banking, corporate Internet banking and retail Internet banking platforms. The Bank furthered its globalisation strategy by completing the integration of the core overseas business systems of its overseas institutions and launching an online U.S. dollar settlement service through its New York branch. Various systems were installed to improve the management of operation, finance, risk, assets and liabilities, including the second generation centralised operation platform, centralised operation management platform, phase II of online account management, risk management system 2.0 and the enhanced asset-liability management system.

Information Technology Research and Operational Ability

The Bank's software research and development centre, located at the Bank's head office, is responsible for the implementation of major IT projects and the research and development of IT software, and has the capability to carry out demand analysis, process design and project implementation and promotion for large-scale projects.

The Bank has continued streamlining its software development procedures, improving IT product quality and enhancing its IT risk management. The Bank's software research and development centre obtained the level-3 CMMI certification at the end of 2008.

Production and operation capability. The Bank's data centre in Shanghai is responsible for supporting its business operations, production of management information, technology and business security, production data management, trading supervision and back-end processing for the Bank's overall operation and data administration. The operation and service capability of the Bank's information system has been maintained at 99.9 per cent. for five consecutive years from 2010 to 2014. The Bank continued to integrate and improve its IT infrastructure by completing the compliance project related to the server rooms of its domestic branches and upgrading the core systems and the network of its Beijing's data centre. The Bank's disaster recovery testing centre in Beijing provides long-distance backup and emergency recovery for the core operational data in the Bank's Shanghai data centre. The Bank currently plans to establish a third data centre in northern China. The Bank has introduced the ISO20000 IT service management system to raise the operation and maintenance standards of the Bank's operational system. Effective contingency management has also facilitated the development of the Bank's business operations.

CAPITAL MANAGEMENT

For the year ended 31 December 2019, the Bank strictly complied with the capital plan for 2019-2021 in accordance with the regulatory requirements of the Capital Rules for Commercial Banks (Provisional), focused on capital's restriction and guidance on business, improved our long-term mechanism of capital management, and maintained prudent capital adequacy ratios. The Bank complied with the Three-Year Action Plan of Improving the bank's Capital Adequacy Ratio, which specified the target capital adequacy ratio for for 2017-2019. Focusing on both capital replenishment and capital conservation, the Bank formulated the working plan for improving capital adequacy ratios, and proposed specific measures to improve the capital management system. For the year ended 31 December 2019, the Bank implemented the "Capital Consolidation Plan", and its capital adequacy ratios increased steadily. As one of the Global Systemically Important Banks, the Bank completed the annual updates of the Recovery Plan of Agricultural Bank of China Limited and the Disposal Plan of Agricultural Bank of China Limited in accordance with the requirements of the Financial Stability Board (FSB) and other relevant international and domestic regulatory requirements, which have been submitted to and approved by the working group for cross-border crisis management which is comprised of domestic and overseas regulatory authorities. For the year ended 31 December 2019, the Bank continued to improve the establishment of internal capital adequacy assessment process (ICAAP), completed the internal capital adequacy assessment for 2019, and carried out the specialized audit of ICAAP for 2019, in order to continuously consolidate the foundation for capital management.

Key Principles of the Bank's Capital Management

- Continue to satisfy the regulatory requirements, maintain a reasonable capital level, and align the Bank's capital adequacy level with the maximisation of shareholders' value;

- Continue to refine the Bank's economic capital-based value management system, optimise the Bank's asset mix, reasonably allocate economic capital, cover all types of risks and ensure sustainable business growth; and

- Utilise various capital instruments, refine the Bank's capital base and structure, enhance capital quality and reduce capital costs.

Management of Capital Financing

In 2019, the Bank improved its capital replenishment system and expanded external sources. In March and April 2019, the Bank completed issuance of two batches of tier-2 capital bonds in the inter-bank bond market of China, in amount of CNY60 billion each batch and CNY120 billion in total. After deducting expenses in relation to the issuance, the proceeds were fully used to replenish its Tier 2 capital. In August and September 2019, the Bank issued CNY85 billion and CNY35 billion write-down undated capital bonds in the inter-bank bond market of China, respectively. After deducting expenses in relation to the issuance, the proceeds were fully used to replenish its additional Tier 1 capital.

Management of Economic Capital

In 2019, the Bank restrained total capital, optimized asset structure, and controlled the growth of risk-weighted assets, in an effort to achieve capital-intensive development. The Bank continued to improve the mechanism for allocation of economic capital, emphasizing the guidance of strategic objectives and the idea of value return, continuously improved the assessment and evaluation system for economic capital, and optimized the application of the economic capital management system, to enhance the sophistication of capital management and application of economic capital.

Capital Adequacy Ratio

In accordance with the "Capital Rules for Commercial Banks (Provisional)", the CET 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of the Bank were 11.2 per cent., 12.5 per cent. and 16.1 per cent., respectively, as at 31 December 2019.

Capital Enhancement Mechanism

The Bank's priority approach to enhance its capital base will be through the retention of profits. The Bank may also enhance its capital base through various external alternatives, including, but not limited to, issuances of subordinated bonds, convertible bonds or hybrid capital bonds, conducting rights offerings or private placements, and certain other alternatives approved by the CBRC.

Capital Management Measures

- Strengthen Profitability and Improve Internal Capital Generation Capability. The Bank plans to enhance its profitability through various measures including accelerating business operations transformation, promoting revenue diversification and increasing operating efficiencies. In addition, the Bank seeks to strengthen internal capital generation capability through setting a reasonable dividend to payout ratio.

- Explore Capital Enhancement Tools and Expand Capital Enhancement Channels. The Bank seeks to utilise the various tools and channels available under the current regulatory framework and continues to explore new capital enhancement tools and expand its capital enhancement channels.

- Refine Capital Control Mechanism and Enhance Capital Allocation Efficiency. The Bank seeks to strengthen capital budgeting management, increase its focus on performance evaluation based on economic capital metrics such as Economic Value Added ("**EVA**") and Risk-adjusted Return on Economic Capital ("**RAROC**"), promote awareness of capital constraints and control the growth of risk-weighted assets through economic capital management. The Bank also plans to refine its economic capital allocation management, adjust its business and asset mix and prioritise the development of business lines that provide higher overall return and require lower capital to reduce capital consumption.

- Enhance Risk Management Capability and Establish Capital Adequacy Assessment Procedures. The Bank has established and continues to refine its capital adequacy assessment procedures, which form an important component of the Bank's internal management and decision-making. The Bank plans to accelerate its utilisation of quantitative risk management measurement techniques and refine economic capital measurement. Adequate capital will be held against its major risk exposures.

- Strengthen Capital Planning Management and Maintain Adequate Capital Base. Based on changes in the macroeconomic and regulatory environment, as well as the progress of its implementation of Basel II/Basel III and its business development needs, the Bank plans to actively adjust its capital planning to ensure that the size of its capital base is commensurate with the future growth of its business and its risk exposure.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and financial institutions in China. The Bank currently competes primarily with the Large Commercial Banks and National Joint Stock Commercial Banks. The Bank also faces increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. The Bank's competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network, brand recognition and information technology capabilities.

In the County Areas, the Bank's competitors vary across geographical regions as a result of the differences among regions in terms of economic development and maturity of the financial market. In addition to other Large Commercial Banks, National Joint Stock Commercial Banks, city commercial banks and foreign-invested bank operating in China, the Bank primarily competes with local rural cooperatives, rural commercial banks, Postal Savings Bank of China and other agriculture-related financial institutions in the County Areas. With the easing of regulatory restrictions on access to the County Area banking market, an increasing number of township banks, loan companies, rural mutual cooperatives and other new types of rural financial institutions have been established in the County Areas. In addition, various financial institutions have strengthened their penetration in the County Area banking market. As a result, the Bank faces increasingly intense competition in the County Areas.

In addition, the Bank faces competition from non-banking institutions such as securities firms and insurance companies in providing financing services to the Bank's customers.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its WTO commitment, the PRC government eliminated measures restricting the geographic presence, customer base and operational licenses of foreign-invested banks operating in China. In addition, China's Closer Economic Partnership Arrangement with Hong Kong and Macau allows smaller banks from those jurisdictions to operate in the PRC, which has also increased competition in the PRC banking industry.

See "*Risk Factors – Risks Relating to the Banking Industry in China – The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels*".

In response to the competitive environment, the Bank intends to continue implementing its strategies to differentiate itself from its competitors and compete effectively in the PRC commercial banking industry.

EMPLOYEES

The Bank had 464,011 employees (and 7,240 dispatched employees) as at 31 December 2019. The number of the Bank's employees as at 31 December 2019 included 454,817 employees at its major domestic subsidiaries, 735 employees at its overseas branches, subsidiaries and representative offices and 8,459 employees at its subsidiaries of integrated operations and the rural banks.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations.

The Bank's overall remuneration level was determined in accordance with factors including the efficiency of the Bank and the total annual remuneration was reviewed and approved by the Board of Directors of the Bank, as required by relevant national regulations. The total remuneration allocated to institutions at all levels under the Bank was determined on the basis of their operating efficiency, performance assessment result and completion status of key tasks. Performance assessment indicators include efficiency indicators, risk indicators and other sustainable development indicators, which comprehensively reflected their long-term performance and risk profiles.

The Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank's training programmes mainly include:

- management training programmes for senior management of the Bank's head office, tier-1 branches and tier-2 branches;

- professional training programmes for professionals in areas such as investment and asset management, risk management, financial accounting, product development, legal and compliance and information technology;

- overseas training programmes for employees to gain exposure to international practice; and technical training programmes for skilled employees.

The Bank has also been developing its job qualification system whereby the Bank will define the required qualifications for each position throughout the Bank's operational processes and arrange appropriate training.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. As at the date of this Offering Circular, the Bank has not experienced any strikes or other material labour activities that have interfered with its operations, and the Bank believes that the relationship between the Bank's management and the labour union has been good.

PROPERTIES

The Bank is headquartered in Beijing, PRC.

The Bank has not obtained the title certificates for some of the properties which it holds and occupies in the PRC. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant title certificates as soon as practicable. The Bank has been unable to obtain some of these title certificates due to various title defects or for other reasons. While there may be legal impediments to the Bank obtaining some of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties owned by the Bank. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing its ability to use all such properties at any one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole. For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly used for commercial purposes, including outlets, offices and ATMs. As the owner of the properties, the lessors are responsible for applying for the relevant title certificates or providing the Bank the consent to lease the properties. In respect of this, the Bank has proactively procured these lessors to apply for the relevant title certificates or provide the Bank the consent to lease the properties. The Bank is of the view that most of these occupied leased properties can, if necessary, be replaced by other comparable alternative premises without any material adverse impact on its operations.

LEGAL AND REGULATORY PROCEEDINGS

Licensing Requirements

As at 31 December 2019, the Bank had obtained the financial operating licenses required for conducting its current businesses.

Legal Proceedings

The Bank is involved in certain legal proceedings in the ordinary course of its business. Most of these proceedings involve enforcement claims initiated by the Bank to recover payments on its nonperforming loans. The legal proceedings against the Bank include actions relating to customer disputes and claims brought by its counterparties on contracts related to its banking operations. Please refer to the risk factor titled "*Risk Factors – Risks relating to the Bank's business – 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.*" for further information.

As at the date of this Offering Circular, the Bank is not involved in any litigation, arbitration or administrative proceedings, and is not aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened, which are or might be material in the context of the issuance of the Notes.

As of 31 December 2019, the value of the claims of the pending litigations or arbitrations in which the Bank was involved as a defendant, a respondent, or a third person amounted to CNY5,478 million. The management of the Bank believes that the Bank has fully accrued provision for potential losses arising from the aforesaid litigations or arbitrations, and they will not have any material adverse effect on the Bank's financial position or operating results.

Regulatory Reviews and Proceedings

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including the PBOC, CBRC, MOF, CSRC, CIRC, SAIC, SAFE, NAO, SAT and their respective local offices. These audits and examinations have previously resulted in findings of incidents of noncompliance and the incurrence of certain penalties. Although these incidents and penalties did not have any material adverse effect on the Bank's business, financial condition or operations results, the Bank has implemented improvement and remedial measures to prevent the reoccurrence of such incidents. The Bank believes that, save as disclosed in this Offering Circular, there were no other material breaches or material incidents of regulatory non-compliance.

RISK MANAGEMENT

Overview

The Bank has adopted a prudent risk management strategy, seeking to balance risks and returns with sustainable growth and sound asset quality to achieve an appropriate level of risk-adjusted returns and capital adequacy.

The objectives of the Bank's risk management are:

- continuously enhancing its corporate governance and risk management to ensure that its Board of Directors and senior management as well as its risk management personnel throughout its organisational structure follow its risk management strategies and implement comprehensive risk management;

- establishing a comprehensive, independent and vertically-integrated risk management organisational framework and developing a risk management organisational structure with a clearly- defined division of responsibilities;

- implementing robust risk policies and procedures to ensure that its risk management function covers all of its business lines, products and personnel;

- developing and applying advanced risk management tools and methodologies to accurately identify and measure risks and to ensure the prompt communication of information throughout various levels of its organisational structure; and

- cultivating a sound risk management culture through continuous management reinforcement, rigorous implementation of risk management policies and management accountability, and bank-wide in-depth employee training.

Risk management initiatives in recent years

Prior to 1996, the Bank was a state-owned specialised bank and the Bank's risk management capabilities were limited. In the middle to late 1990s, the Bank began to operate on a commercial basis and started to manage the Bank's risks more proactively.

In 2007, the Bank established the Risk Management Department at its head office and began to implement its centralised risk management strategy. In 2009, the Bank established a comprehensive risk management organisational structure. Under the principle of separating the supervision function from the formulation and implementation of risk management policies, the Bank has defined risk management responsibilities and related reporting lines of its Board of Directors and its specialised committees, senior management and the specialised committees under their supervision, as well as its various departments with risk management responsibilities.

Since 2013, the Bank has continued to refine its risk management policy system. The Bank formulated a risk management plan for 2013 to 2015 and revised its risk evaluation method, as well as the working rules of the Risk Management Committee. The Bank also strengthened its risk management systems in various specific aspects, and developed or revised policies and measures such as procedures for loan defaults identification, risk assessment of County Area credit products, market risks monitoring and reporting, risk classification in the wealth management business and country risk management. In addition, the Bank formulated the objectives and implementation plans for the three pillars under the Capital Rules for Commercial Banks (Provisional) and the administrative measures for Internal Capital Adequacy Assessment Process (ICAAP), and conducted its 2015 internal capital adequacy assessment.

Since 2015, the Bank has continued to refine its risk management policy systems. For credit risk, the Bank formulated administrative measures on consolidated credit to group customers and administrative measures on warning for the tolerance of rural non-performing loans, and revised industry-specific credit policies, the administrative measures on loans for mergers and acquisitions and the administrative measures on commercial housing mortgage loans to corporate customers. In terms of market risk, the Bank formulated policies regarding annual treasury transactions and investment and market risks management, and revised the administrative measures on risk management of wealth management business with fixed income asset portfolios. In terms of operational risk, the Bank revised the reporting standard of the operational risk events.

The Bank believes that the implementation of the foregoing risk management strategy and initiatives has led to an enhanced operating framework, improved risk management capabilities and a rigorous risk management culture.

Comprehensive Risk Management System

Comprehensive risk management refers to the timely identification, measurement, monitoring, control and reporting of all types of risks in the business operation through integrating various factors, such as risk appetite, policies and rules, organisations, tools and models, data systems and risk culture, and complying with the principles of comprehensive coverage, whole-process management and overall participation, so as to ensure effective risk management of the Bank in decision-making, implementation and supervision processes.

Notwithstanding the complex and challenging risk situation in 2019, the Bank continued to improve the comprehensive risk management system, strengthen credit risk management in key areas and control its asset quality to ensure effective risk management. The "Clean-up Plan" has been successfully completed, with steady declines in both the balance and ratio of non-performing loans. The Bank also improved its industry-specific limit management and optimised its credit structure. With the market risk management system being further improved and supervision on market risk exposure limits being enhanced, the level of risks arising from the financial market businesses remained stable in general. The Bank continued to prevent and control operational risks and non-compliant cases, enhanced risk management in relation to information technology and made sure the Bank's business is managed uninterruptedly. In addition, the Bank accelerated the construction of the risk management information system and improved the management of effective risk data and risk reporting in accordance with the regulatory requirements.

Risk Appetite

Risk appetite is a term that refers to the levels and types of risks acceptable to and tolerable for the Bank as determined by the Board of Directors in order to achieve the strategic targets of the Bank, which depends on the expectations and constraints of its major stakeholders, external operating environment and actual conditions.

The Bank has a prudent risk appetite, operates strictly in compliance with laws and regulations, and maintains a balance among capital, risk and gains, as well as consistency in security, profitability and liquidity. At the same time, by adopting a prudent risk bearing policy neither overly aggressive nor conservative, the Bank seeks to achieve moderate returns through undertaking an appropriate level of risks and maintains sufficient risk provisions and capital adequacy for risk resilience. The Bank improves the comprehensive risk management system continuously and actively facilitates the implementation of effective capital management to maintain good regulatory ratings and external ratings and lay a foundation for the realisation of its strategic objectives and operation plans.

Risk Management Organisation Structure

The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management/ Consumers' Interests Protection Committee, the Audit and Compliance Committee and the Risk Management Committee of Institutions in the United States Regions under the Board of Directors perform the relevant risk management functions, review the key risk management issues and supervise and evaluate the establishment of risk management system and the risk level of the Bank.

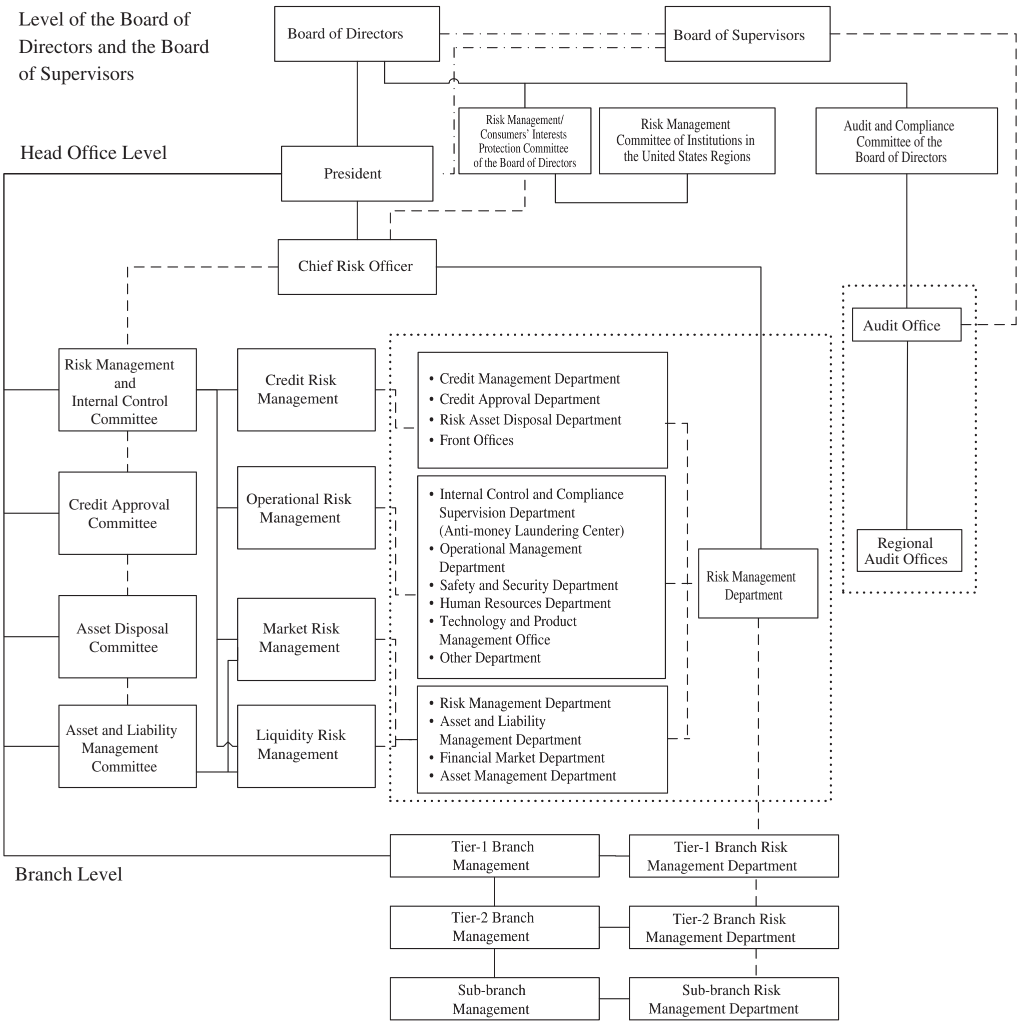
The senior management is the organiser and executor of risk management of the Bank and has been further divided into various risk management committees with different functions, including Risk Management and Internal Control Committee, Credit Approval Committee, Asset and Liability Management Committee and Asset Disposal Committee. Among them, the Risk Management and Internal Control Committee is primarily responsible for organising and coordinating risk management and compliance management across the Bank, considering and approving material risk management and compliance management issues.

The Board of Supervisors is responsible for risk management supervision. It supervises and inspects the performance of the due diligence duties of the Board of Directors and the senior management in risk management and urges them to make rectifications as necessary. It supervises and inspects the Board of Supervisors' work and makes regular reports at the shareholders' general meeting.

Based on the principle of "overall coverage", the Bank established a "matrix" risk management organisational system and "Three Lines of Defence" which comprised of the risk bearing departments, risk management departments and internal audit departments. In 2019, the Bank further promoted integrated risk management of its parent company and subsidiaries, optimised the management frameworks of credit risk, market risk and operational risk and made continuous efforts to improve the risk management mechanism for the business units directly operated by the Head Office.

Please see below the Bank's risk management organisation structure as at 31 December 2019:

Risk Management Organization Structure



Risk Management Rules System

Under the principle of separating the supervision function from the formulation and implementation of risk management policies, the Bank has set up and continued to refine its risk management policy system to enable it to develop and revise policies and measures such as procedures for loan defaults identification, risk assessment of County Area credit products, market risks monitoring and reporting, risk classification in the wealth management business and country risk management. In 2019, the Bank continued to develop its risk management policies system. For comprehensive risk management, the Bank formulated risk management fundamental policies, further specifying the "Three Lines of Defence", risk management requirements and procedures for comprehensive and individual risk management. The Bank revised the management measures on risk reporting to further regulate the risk reporting work. For credit risk management, the Bank formulated the management measures on unsecured loans to corporate customers, management measures on online credit business and management measures on credit risk reporting. The Bank also improved the credit and post-disbursement management rules system for the overseas branches and established the credit risk management framework for the subsidiaries. For market risk management, the Bank revised the management measures on market risk monitoring and reporting and management measures on market risk limits. The Bank also made annual management policies on customer rating, asset classification, capital transaction and market risk and IT risk, so as to provide effective guidance for daily risk management.

Risk Analysis Report

The Bank closely monitor its credit risks, market risks and liquidity risks through its risk analysis and reporting. The Bank focuses on risk identification, monitoring and pre-warning and takes into account changes in macro-economic situations, national industrial and regulatory policies. In 2019, in light of the domestic and international economic and financial environment, the Bank comprehensively analysed various risk profiles and enhanced risk analysis reports on key areas, industries, customers and businesses. The Bank improved the comprehensiveness, accuracy and timeliness of risk analysis reports by applying various instruments and methods including internal rating, risk limits, economic capital and stress testing. The Bank also conducted prospective analysis on the future risk trends and proposed measures.

Credit Risk

Credit risk is the risk of economic loss arising from the failure of counterparty to fulfil its obligations to perform contractual liabilities. The Bank's credit risk is primarily originated from loan portfolios, investment portfolios, guarantee business and various other credit risk exposures on and off the balance sheet.

Credit Risk Management

The Bank manages credit risk through a variety of methods, including but not limited to streamlining its credit approval process, establishing bank-wide standardised authorisation and credit extension management system, monitoring risk exposure and borrower concentrations and mitigating credit risk through the use of collateral and other arrangements. In 2019, the Bank continuously optimised the credit structure. Focusing on serving national strategies and the real economy, the Bank increased credit in areas relating to "stabilising growth and economic restructuring" and "new driving force" for economic growth. Moreover, the Bank strengthened the risk prevention and control in key areas, improved the industry-specific credit exposure limits management, timely mitigated various potential risks, and diversified the channels for collection and disposal of non-performing loans, thus maintaining its assets quality.

Credit Risk Management Structure

The organisational structure of the Bank's credit risk management mainly comprises the Board of Directors and its Risk Management/Consumers' Interests Protection Committee, the senior management and its Risk Management and Internal Control Committee, Credit Approval Committee, Asset Disposal Committee, as well as Credit Management Department, Credit Approval Department, Risk Management Department and various front offices, forming a credit risk management structure characterised with centralised and unified management and multi-level authorisation.

Risk Management of Corporate Banking Business

The Bank manages the risks of its corporate banking business through a variety of methods including but not limited to refining its rule system, risk quantification for key areas, implementing customer list-based management and post-disbursement management of key customers and monitoring customers with large credit exposures. The Bank improved its credit policy system and revised its credit management measures on working capital, fixed assets and project financing. The Bank also formulated or revised credit policies related to industries such as port, airport and biomass power generation, regulating corporate customer credit management. Moreover, the Bank published customised credit policies, with a focus on supporting the national strategic development of major regions including the Guangdong-Hong Kong-Macao Greater Bay Area, Xiongan New Area and the Yangtse River Economic Belt.

The Bank kept innovating credit management mode to reduce risk incidence rate. It also worked out the implementation plan for the digital transformation of credit management, took the lead in formulating the management measures for online credit business in the industry, and established a basic online credit system that meets the logic requirements of Internet and Big Data. In response to the development trend of FinTech, the Bank also accelerated the standardisation and intelligent transformation of its offline business.

The Bank improved the allocation of credit resources. It formulated the Opinions on Implementation of Further Adjusting and Optimising the Credit Structure (2019-2021) clarifying the goals and strategies for the allocation of credit resources, and took multiple measures to make good use of credit increment and revitalise existing loans. The Bank leveraged "two models". Firstly, it deepened the application of the RAROC (Risk Adjusted Return on Capital) model, and conducted multi-dimensional, multi-level, and multi-perspective analysis of its credit structure, to provide scientific basis for the supply and allocation of credit resources. Secondly, it built an innovative multi-dimensional and multi-indicator model for industrial credit asset allocation, shifting from single industry research to industry portfolio research, and strengthening target management, so as to better match its credit resource allocation with economic structural adjustment.

The Bank strengthened the post-disbursement management and the collection and disposal of non-performing assets. It also strengthened post-disbursement management of key customers and monitored customers with large credit exposures so as to mitigate major risks in a timely manner. The Bank continued to strengthen the collection and disposal of non-performing loans by implementing the strategy of "more collection, more write-offs, more restructuring, and targeted transfer in batches". In addition, the Bank strengthened "head office-to-head office" cooperation and implemented "cross-provincial" package transfer to reduce transfer losses.

Risk Management of Retail Banking Business

The Bank manages the risks of its retail banking business through a variety of methods including but not limited to limit management on residential mortgage loans, identification of fraud risk related to retail loans, strengthening collection and write-offs of non-performing loans and collection of overdue loans. The Bank improved the policy system by revising the management measures including personal guarantee and work instructions for mortgage registration. It conducted classification and evaluation of personal loan operation centres to improve credit efficiency and prevent and control operational risks. It also monitored and analysed key products to effectively control potential risks. The Bank improved the intelligent risk management of retail banking business by promoting the application of the intelligent risk control system, upgrading the risk monitoring system for online personal loan, launching BoEing security prevention and control project for online loans, and upgrading the second-generation credit reporting system. Moreover, the Bank conducted special inspections on risks of false use and false mortgages, organised due diligence supervision and inspections on multiple loans for one purpose, strengthened compliance operation and anti-money laundering and prevented external fraud. For major problems identified during internal and external inspections, the Bank enhanced follow-up supervision and rectification. It also strengthened its management of overdue loans, collecting 2.11 million loans from customers throughout the year by telephone and door-to-door collections.

Risk Management of Credit Card Business

The Bank manages the risks of its credit card business through a variety of methods including but not limited to credit granting management, authorisation management of credit card issuance approval, monitoring loan risk and customer risk and control over capital flow. The Bank continued to improve the smart risk control system, which is intelligent, customised, intensified, and integrates the Head Office and branches to support stable and sustainable development of its business. It also strengthened monitoring and early warning functions, putting into operation the intelligent anti-fraud platform to promptly cut off the risks of card issuance fraud and transaction fraud. The Bank improved risk identification rules and models and established a tracking evaluation mechanism after disposal to identify high-risk customers more easily. It also strengthened industry-specific risk prevention and control, building a special examination and approval team to keep carrying out differentiated analysis and control over high-risk areas. The Bank improved the integrated collection system of the Head Office and branches. It also optimised the collection system featuring combination of collection by its own and entrusted collection based on the principle of "centralised collection by the Head Office and regional collection by branches", so as to improve the efficiency. In addition, the Bank enhanced whole-process risk management for special instalment business, working out risk strategies for special instalment business focusing on "control of people, properties and scenes" and intensifying support from Big Data.

Risk Management of Treasury Business

The Bank's treasury operations involve investments in treasury bonds, government bonds, financial institution bonds, corporate bonds, commercial paper, medium-term notes, and asset-backed securities. The Bank conducts credit risk management in respect of its treasury operations primarily through managing credit lines for counterparties. The Bank improved the measures on risk management for treasury business and the whole-process risk management mechanism. By constantly monitoring the risks related to its existing customers and their transaction counterparties and timely updating the list of customers that required special attention, the Bank dynamically adjusted the strategies to deal with risks. The Bank monitored the transaction prices related to financial market business and continued to establish a unified platform for management of market risk exposure limits. The Bank did not trigger any risk exposure limits in 2019. In addition, the Bank worked out plans for the disposal of existing non-standard assets and improved the management of credit bonds before, during and after investment. It also improved its systemic risk control capability. Phase I of its global investment transaction management platform went into operation smoothly. The Bank improved the integrated system of risk monitoring and reporting for treasury business within the Group and established the monthly risk reporting mechanism for its subsidiaries and overseas branches and subsidiaries for treasury business.

Loan Risk Classification

The Bank formulated and improved relevant regulations on loan risk classification in accordance with the Guidelines of Loan Credit Risk Classification issued by the CBIRC. It comprehensively assessed the recoverability of loans when due and classified the loans by taking various factors into account, including the borrower's repayment ability, repayment record, willingness to repay the loan, profitability of the loan project, and the reliability of the secondary repayment sources.

The Bank adopted two classification management systems for loans: the five-category classification system and the 12-category classification system. Corporate loans were mainly managed with the 12-category classification system. Comprehensive evaluations of customer default risk and debt transaction risk objectively reflected the risk level of loans. The evaluations were made with more details in preparing the annual classification policies at the beginning of the year. Specified requirements for classification standards and management of loans to core corporate customers were provided to improve the foreseeability and sensitivity of risk identification. Retail loans were managed with the five-category classification system. The credit management system automatically classified the loans based on the length of period by which payments of principal or interest were overdue and the types of collaterals, allowing for a more objective risk assessment method. Large retail loans to private businesses were classified manually on a quarterly basis to enhance risk sensitivity. In addition, the classification was timely adjusted based on the risk information collected in the credit management to reflect loan quality objectively.

Market Risk

Market risk refers to the risk of losses in the businesses of banks on and off the balance sheet as a result of an adverse change in market prices. Market risk comprises, but is not limited to, interest rate risk, exchange rate risk, stock price risk and commodity price risk. The Bank is exposed to market risks, primarily including interest rate risk and exchange rate risk. The Bank's organisational structure of market risk management comprises the Board of Directors and its Risk Management/Consumers' Interests Protection Committee, the senior management and its Risk Management and Internal Control Committee, the Risk Management Department, the Asset and Liability Management Department and other departments (institutions) bearing market risks.

In 2019, the Bank optimised the functions of its market risk management system, carried out comprehensive validation of Internal Model Approach and strengthened the guarantee for customers' performance of derivative transaction contracts. As at 31 December 2019, the Bank's exposures from different proprietary transactions were kept at relatively low levels and its exposures to market risk were under control.

Market Risk Exposure Limit Management

The Bank optimises the indicator system for market risk limit and strengthens monitoring and control on the limits. Through squaring positions, hedging and reduction of transaction volume, the Bank controls its market risk exposure in a timely manner. The Bank's market risk exposure limits are classified into directive limits and indicative limits. In 2019, the Bank further enhanced its market risk exposure limit management by setting different market risk exposure limits based on parameters such as the types of products and risks and kept refining the indicators of limits. It also leveraged the systems to measure, monitor and report risk exposure limits automatically. In 2019, the market risk exposure limits of the Bank were all kept within designated ranges.

Segregation of Trading Book and Banking Book

To improve the effectiveness of market risk management and the accuracy of the measurement of regulatory capital for market risk, the Bank classified all of the on and off balance sheet assets and liabilities into either the trading book or the banking book. The trading book includes the financial instruments and commodity positions held for trading or hedging against the risk of other items in the trading book. Any other positions are classified into the banking book.

Market Risk Management for Trading Book

The Bank managed the market risk of the trading book through various approaches such as Value at Risk (VaR), exposure limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Bank adopted a historical simulation method with a confidence interval of 99% based on a holding period of one day and historical data for 250 days to measure the VaR for the trading book of the Head Office and domestic and overseas branches of the Bank. Based on the different circumstances of domestic and overseas markets, the Bank selected applicable parameters for the models and risk factors in order to accurately reflect the levels of market risks. The Bank verified the accuracy and reliability of the risk measurement models through data analysis, parallel modelling and back-testing.

Market Risk Management for Banking Book

The Bank managed market risk of the banking book through comprehensive use of technical measures such as exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk refers to risk of losses in income or economic value or of the banking book as a result of adverse changes of the interest rate level or term structure. The interest rate risk of the banking book of the Bank primarily arises from the mismatch of the maturity or re-pricing dates of interest-rate-sensitive assets and liabilities in the banking book and the inconsistencies in the change of the benchmark interest rate on which assets and liabilities are based.

Since LPR reform of the PBOC, the Bank, according to regulatory requirements, implemented relevant policies, by upgrading its business system, revising standard loan contract, improving the pricing mechanism for internal and external interest rates, and comprehensively promoting application of LPR, accomplishing in general the application of LPR loan pricing method to the whole process. After the reform of LPR, the benchmark interest rate was more connected with the market interest rate and the frequency and range of fluctuation both increased. The Bank strengthened monitoring and forecast of the external interest rate environment, timely adjusted the pricing strategies for internal and external interest rates, improved the product portfolio and term structure of assets and liabilities and actively adjusted the risk structure by using interest rate options, so as to reduce the adverse effect of interest rate changes on its economic value and income. In 2019, the Bank's overall interest rate risk remained stable with all risk exposure limits kept within the ranges of regulatory requirements and its management objectives.

Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from currency mismatches of assets and liabilities of banks. Exchange rate risk mainly consists of the trading exchange rate risk that could be hedged, and the exchange rate risk caused by assets and liabilities (the "**non-trading exchange rate risk**"), which can hardly be avoided in operations. Through exposure limit management and the management of the currency structure of its assets and liabilities, the Bank seeks to ensure that the adverse impact of exchange rate fluctuations falls within an acceptable range.

In 2019, the Bank performed monitoring on exchange rate risk exposures and sensitivity analysis regularly and continuously improved measurement on exchange rate risk and its management information system. Through proper matching of foreign currencies, the Bank flexibly adjusted the trading exchange rate risk exposure, while maintaining the non-trading exchange rate risk exposure stable. Therefore, the Bank's exchange rate risk exposure was controlled within a reasonable range.

Liquidity Risk

Liquidity risk refers to the risk of being unable to timely acquire sufficient funds at a reasonable cost by commercial banks to settle amounts due, fulfil other payment obligations and satisfy other funding needs during the ordinary course of business. The major factors affecting liquidity risk include but not are not limited to negative impacts of market liquidity, deposit withdrawal by customers, loans withdrawal by customers, imbalance between asset and liability structures, debtor's default, difficulty in asset realisation, weakening in financing ability.

Liquidity Risk Management

Liquidity Risk Management Governance Structure

The liquidity risk management governance structure of the Bank consists of the decision-making system, the execution system and the supervision system. Among which, the decision-making system consists of the Board of Directors and its Risk Management/Consumers' Interests Protection Committee and the senior management; the execution system mainly consists of liquidity management departments, departments managing asset and liability businesses, information and technology departments; and the supervision system consists of the Board of Supervisors, the audit office, the internal control and compliance supervision department and the legal affairs department.

Liquidity Risk Management Strategy and Policy

The Bank adhered to a prudent liquidity management strategy. It formulated its liquidity risk management policy, following regulatory requirements, external macroeconomic environment and business development conditions. It also effectively maintained balance among liquidity, security and profitability, on condition of the guaranteed security of liquidity.

Liquidity Risk Management Objectives

The objectives of the Bank's liquidity risk management were to effectively identify, measure, monitor and report liquidity risk by establishing a scientific and refined liquidity risk management system; to timely fulfil the liquidity needs of assets, liabilities and off-balance sheet businesses and for the payment obligations under ordinary operating conditions or under stress; and to effectively balance both capital efficiency and security of liquidity while preventing the overall liquidity risk of the Group.

Liquidity Risk Management Method

The Bank seeks to improve its liquidity management through various measures, including focusing on maintaining stable sources of funding and increasing its core deposits, enhancing its marketing efforts, increasing its total deposit amount, securing the continued growth in deposits to meet its liquidity needs and maintaining its capital raising capabilities, and improving the diversity of assets and maintaining an appropriate mix of short-, medium- or long-term assets. The Bank paid close attention to changes in external economic and financial situation, monetary policies and market liquidity, continued to monitor the liquidity condition across the Bank, and forecasted changes and trends. It strengthened the asset-liability management to mitigate risks related to mismatch of maturity. It secured the sources of core deposits, facilitated the use of financial instruments and kept its financing channels open in the market. The Bank also improved the liquidity management mechanism through strengthening the monitoring, early warning and overall allocation of funds. With a moderate reserve level, the Bank satisfied various payment demands. In addition, it improved the functions of the liquidity management system to improve its electronic management.

Stress Testing Situation

Based on the market condition and operation practice, the Bank set liquidity risk stress scenarios based on full consideration of various risk factors which may affect the liquidity. It conducted stress testing quarterly. According to the testing results, under the prescribed stress scenarios, the Bank has passed all the shortest survival period tests as required by regulatory authorities.

Main Factors Affecting Liquidity Risk

Factors affecting the Bank's liquidity include the term structure of the Bank's assets and liabilities and changes to banking industry policies, such as changes in the requirements relating to loan-to-deposit ratio and statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in the funding of its lending, trading and investment activities, as well as in the management of its liquidity positions. In 2019, the internal and external liquidity situations faced by the Bank were complicated and ever-changing. Global trade disputes brought about more uncertainties. Global economic growth continued to slow down and major economies all cut their interest rates. The financial supply-side structural reform continued to develop. Counter-cyclical adjustments were made. The market funds were structurally tight with greater fluctuations in market interest rate. The Bank faced increasingly more challenges in its liquidity risk management such as increased volatility of liabilities, greater pressure from maturity mismatch management and structural optimisation of assets and liabilities, and increased difficulty in balancing the liquidity, security and profitability.

Operational Risk

Operational Risk Management

Operational risk refers to the risk of losses resulting from inadequate or problematic internal procedures, personnel management or information technology system, or external risk, including legal risk, but not including strategy risk or reputation risk.

The operational risk that the Bank faces primarily includes, among others, internal fraud, external fraud, damage to property, disruptions to the Bank's operations or information technology system and problems associated with transaction execution and closing as well as business processes. Since 2009, the Bank has implemented initiatives to streamline its business and operational processes and centralise its back-office management to enhance its capabilities in the identification, measurement, reporting and control of operational risks. In 2015, the Advanced Measurement Approach for operational risk was applied to economic capital measurement and its models were optimised, in order to improve the stability and sensitivity of the economic capital models. The Bank believes that these measures will strengthen its operational risk management. In 2019, the Bank reinforced the implementation of operational risk management rules. The operational risk management information system was optimised by improving its automatic data aggregation technology. The operational risk management tools were applied and selfassessments on operational risk and special assessments on business outsourcing risk were conducted to increase the initiative and perceptiveness of its risk prevention and control. The Bank analysed its operational risk condition on a quarterly basis. It continuously strengthened the detection of non-compliant cases in its weak and high-risk areas and launched monitoring, analysing, tracking and supervision on major operational risk events. In addition, the Bank strengthened the operational risk management of the Group with strengthened supervision, guidance, assessment and evaluation on domestic and overseas institutions and subsidiaries.

Legal Risk Management

Legal risk refers to any risk of banks suffering from adverse consequences including legal liabilities, loss of rights and reputational damage due to the breach of laws, administrative rules and regulations, or terms of contracts of its business operations and legal failure to duly regulate and exercise rights or external legal factors. Legal risk includes risk directly resulted from legal factors, as well as the risk associated with other forms of risks.

Legal risk management of the Bank involves identifying legal risks, reviewing and improving its contract management mechanism, conducting research on legal issues related to its business, monitoring intellectual property rights risk and managing litigation cases. The Bank was the first among domestic peers to set up the position of Chief Legal Advisor, aiming to promote business operation compliance and strengthen the legal risk management for material decisions. In 2019, the Bank consolidated the legal safeguards for its reform and development by providing legal support to its digital transformation, the development of "Sannnong", the development of inclusive finance, liberalisation of the interest rate and intellectual property protection. To prevent and mitigate major risks, the Bank enhanced the handling of material domestic litigations and risk events, addressed the overseas litigation-concerned risks prudently, improved the mechanism of solving regulatory cases, and properly settled disputes in relation to intellectual property. For the overseas institutions, legitimacy assessments on cross-border data were conducted to strengthen their legal risk management. For the subsidiaries, the Bank augmented the guidance on the legal risk management and established an integrated legal risk management system at the Group level. To raise its staff's awareness of laws and rules, the Bank explored the formulation of a checklist system for common legal concepts, and organised contests to test and extend staff's legal knowledge as well as held a series of activities to promote basic legal knowledge and awareness.

Reputational Risk

Reputational risk refers to the risk resulting from negative feedback from related stakeholders due to the operation, management or other actions of the Bank or external events.

The Bank organises reputation risk investigations to identify potential reputation risk in branches, monitors public opinion and addresses reputation events in advance. The Bank has also set up emergency plan to control material reputation events and training programs to improve skills of prevention and management of reputation risk in branches and sub-branches. In 2019, the Bank revised the management measures on reputational risk to strengthen the Bank' integrated reputational risk management. It strengthened the inspection and early warning of reputational risk, updated the list for public opinion management and improved the refined management of reputational risk. It also improved the regular trainings and exercises to improve employees' awareness of reputational risks and their media response skills. The Bank strengthened positive publicity and guidance to establish a good brand image. According to regulatory requirements, the Bank explored and carried out research on measurement of capital for reputational risk.

Country Risk

Country risk represents the risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable or unwilling to pay their debts owed to the Bank or damage the business establishment of the Bank in that country or region or causes other losses to the Bank.

The Bank manages country risk through a series of methods and tools such as country risk rating, risk limit approval, risk exposure calculation, market research analysis, monitoring and analysis of risk factors and stress testing. In response to a complex and changing international environment in 2019, the Bank closely followed and monitored country risk situation. The Bank continued to improve the management systems and managed country risk effectively through tools and approaches such as country risk rating, exposure analysis, limit approval and stress testing.

Risk Consolidated

The Bank continuously promoted the risk consolidation management of the Group and advanced the integration of risk management of its parent company and subsidiaries. The Bank instructed the subsidiaries to revise their basic risk management systems, risk appetite statements and risk management policies based on the "One Company One Policy" principle, improved the comprehensive risk management framework, and specified the risk limitations and annual work priorities. It also promoted the establishment and implementation of the mechanism for sharing risk information of large corporate clients and strategic coordination between the Bank and the subsidiaries. The Bank continuously strengthened risk monitoring, risk management assessment, risk assessment and evaluation, and risk management training for its subsidiaries.

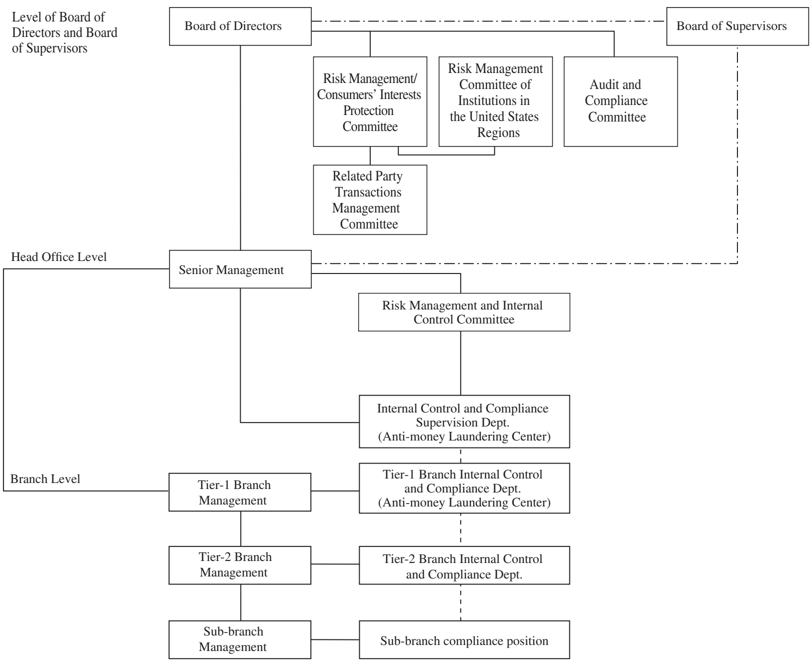
Internal Control

The objectives of the Bank's internal control are to reasonably ensure legal and compliant operation and management, make financial reporting and related information truthful and complete, ensure effective risk management and asset security, improve operational efficiency and effectiveness, and facilitate the fulfilment of the Bank's business goals and development strategies.

Pursuant to the *Internal Control Guidelines for Commercial Banks* issued by the CBIRC, the *Basic Rules on Enterprise Internal Control* jointly issued by five ministries including the MOF as well as its supporting guidelines, and other regulatory requirements on internal control, the Board of Directors is responsible for establishing a sound internal control mechanism, implementing it effectively, evaluating its effectiveness, and truthfully disclosing internal control evaluation reports. The Audit and Compliance Management Committee, the Risk Management/Consumers' Interests Protection Committee, the Risk Management Committee of Institutions in the United States Regions, and the Related Party Transactions Management Committee established under the Board of Directors are responsible for performing the corresponding duties related to internal control management. The senior management is responsible for the daily operation of internal control. The Board of Supervisors supervises the establishment and implementation of internal control by the Board of Directors and the senior management.

Please see below a structure chart showing the Bank's internal control management structure as at 31 December 2019:

Our Internal Control Management Structure



In 2019, the Board of Directors, the Board of Supervisors, the senior management and the subordinate professional committees duly performed their duties regarding internal control management and supervision, remained committed to internal control management, and focused on improving the effectiveness of internal control, so as to ensure the legal compliance of the operation.

- Developing a compliance culture. The Bank revised the employee code of conduct and called on its staff to be more aware of the value of compliance. The Bank leveraged the roles of such compliance culture to guide, restrict, unite and inspire its employees.

- Optimising the Bank's internal control rules system. The Bank carried out post-evaluation of rules and continuously improved its basic rules, administrative measures and operating rules at multiple levels. In addition, the Bank planned the formulation, revision and abolition of rules, standardised the drafting of rules and reviewed more strictly to improve the quality of its rules.

- Strengthening compliance risk management. The Bank formulated the operating procedures to conduct compliance risk assessments and compliance tests to comprehensively evaluate the design and operation of compliance management mechanisms. The Bank strengthened integrated management of the Group by developing an action plan for the establishment of a long-term mechanism for compliance management of its overseas institutions, exploring intra-group transaction limit management, and strengthening the internal authorisation management of its subsidiaries.

- Continuously improving the quality and effectiveness of inspection and rectification. The Bank strengthened the planning and management of supervision and inspection work with more efficient allocation of inspection resources. Besides, the Bank made rectification based on the inspection results during the special inspection on the fight against poverty, and thoroughly rectified problems identified by all sorts of internal and external inspections to promote its operations. The Bank formulated the working rules of accountability committee under the senior management to advance stricter management and compliance operations of the Bank.

- Attaching great importance to enhancing employees' awareness of anti-corruption and anti-bribery. The Bank intensively inspected risks to prevent risks relating to corruption and bribe, reported cases and pursued relevant persons for accountability. The Bank duly inspected its businesses and managed its employees to promptly reveal illegal activities and potential risks.

- Formulating a three-year plan with four key measures to prevent violations and increase internal control.

Anti-money Laundering

In 2002, the Bank established a steering group responsible for anti-money laundering management. In 2003, the Bank formed an anti-money laundering division at its head office. The Bank has since developed and refined anti-money laundering policies, clearly defining the duties and responsibilities, working procedures, and authorisations of the Bank's various departments and branches. The Bank invests heavily in its anti-money laundering compliance efforts and provides regular training to its employees to strengthen their compliance awareness and skills. The Bank is committed to fulfilling its reporting obligations under anti-money-laundering laws and has been cooperating with regulatory authorities and the judiciaries to carry out anti-money laundering investigations. The Bank systematically carries out customer due diligence, and collects customer information and transaction records according to applicable laws and regulations. The Bank seeks to continue to improve its anti-money laundering capabilities and its compliance with bank-wide anti-money laundering policies and procedures through reinforcing the implementation of the "know-your-customer" procedures and standardised operational processes, improving its information collection and processing capabilities relating to large and suspicious transactions and strengthening its review and reporting of these transactions, as well as enhancing the functionality of its anti-money laundering information system to generate risk alerts on a timely basis. In 2019, the Bank promoted the construction of its compliance management system and capability for global anti-money laundering with reference to the highest international standards and best practices within the industry, to effectively prevent the risks of money laundering and terrorist financing.

- A three-year development plan for the global anti-money laundering centre was formulated. The Bank will promote the action plan for the construction of a global anti-money laundering system and strive to build a policy centre, a monitoring centre and an information centre for anti-money laundering compliance management domestically and overseas.

- The Bank strengthened customer identification and money-laundering risk management and control. An annual institutional money laundering risk assessment and a customer and product money laundering risk assessment were carried out. It also revised and improved various operating procedures for due diligence of customers.

- The Bank improved its ability to monitor and analyse money laundering risks continuously. The Bank established a money-laundering risk investigation and information discussion mechanism to carry out clue collection, analysis, investigation of risks and control and optimise suspicious transaction monitoring models.

- The Bank improved the global sanctions compliance management policy system, clarified sanctions risk appetite and management strategies, screened sanctions lists, and continuously improved the effectiveness of sanctions risk management and control.

- The Bank established an intelligent management system for anti-money laundering. A multi-dimensional data analysis tool was applied to accelerate the application of intelligent technology in the identification of customers and risk evaluation.

- The Bank strengthened trainings on anti-money laundering compliance and encouraged employees to obtain the Certified Anti-Money Laundering Specialist certification to continuously improve employees' capabilities to perform their duties.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the persons who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Bank under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**") or which were recorded in the Bank's register required to be kept under section 336 of the SFO or who were directly or indirectly interested in 5 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Bank were as follows:

Unit: Share

Name	Capacity	Interests and short positions	Nature	Percentage of issued class shares (%)	Percentage of total issued shares (%)
Huijin	Beneficial owner	140,087,446,351 (A Shares)	Long position	43.88	40.03
	Interest of controlled entity	1,255,434,700 (A Shares)	Long position	0.39	0.36
MOF	Beneficial owner/Nominee[(1)]	133,312,244,066 (A Shares)[(2)]	Long position	41.76	38.09
SSF	Beneficial owner	23,520,968,297 (A Shares)	Long position	7.37	6.72
The Bank of New York Mellon Corporation	Interest of controlled entity	2,528,604,097 (H Shares)	Long position	8.23	0.72
		2,475,577,852 (H Shares)	Shares available for lending	8.05	0.71
Qatar Investment Authority	Interest of controlled entity	2,448,859,255 (H Shares)[(3)]	Long position	7.97	0.70
Qatar Holding LLC	Beneficial owner	2,408,696,255 (H Shares)[(3)]	Long position	7.84	0.69
BlackRock, Inc	Interest of controlled entity	2,151,249,908 (H Shares)[(4)]	Long position	6.99	0.61
		7,326,000 (H Shares)	Short Position	0.02	0.00
Citigroup Inc.	Person with secured interests in shares	1,851,234 (H Shares)[(5)]	Long position	0.01	0.00
	Interest of controlled entity	91,693,261 (H Shares)[(5)]	Long position	0.30	0.03
		41,306,379 (H Shares)	Short position	0.13	0.01
	Approved lending agent	1,462,864,843 (H Shares)[(5)]	Shares available for lending	4.75	0.42

Notes:

(1) 9,797,058,826 A Shares are held by the SSF, but the voting rights of these shares were transferred to the MOF according to the share subscription agreement dated 21 April 2010 and the Approval on the Proposed Transfer of State-owned Shares of the Agricultural Bank of China issued by the MOF on 5 May 2010.

(2) According to the register of members of the Bank at 31 December 2019, the MOF held 123,515,185,240 A Shares of the Bank, representing 38.69% of the issued A Shares and 35.29% of the total issued shares of the Bank, respectively.

(3) Qatar Investment Authority is deemed to be interested in 2,448,859,255 H Shares in aggregate held by Qatar Holding LLC and QSMA1 LLC, both of which are wholly-owned subsidiaries of Qatar Investment Authority.

(4) BlackRock, Inc. is deemed to be interested in 2,151,249,908 H Shares in aggregate, both directly and indirectly held by BlackRock Investment Management, LLC and BlackRock Financial Management, Inc., both of which are wholly owned subsidiaries of BlackRock, Inc.

(5) Citigroup Inc. is deemed to be interested in 1,556,409,338 H Shares in aggregate, both directly and indirectly held by Citicorp LLC and Citibank, N.A., both of which are wholly-owned subsidiaries of Citigroup Inc.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

The following table sets out certain information relating to the Bank's directors:

Name	Position	Term of appointment
ZHOU Mubing	Chairman of the Board, Executive Director	2016.07-2022.07
ZHANG Qingsong.	Vice Chairman of the Board, Executive Director and President	2020.01-2023.01
ZHANG Keqiu..	Executive Director, Executive Vice President	2019.04-2022.04
LIAO Luming	Non-executive Director	2017.08-2023.08
LI Qiyun	Non-executive Director	2018.06-2021.06
LI Wei....	Non-executive Director	2019.05-2022.05
WU Jiangtao.	Non-executive Director	2019.07-2022.07
ZHU Hailin	Non-executive Director	2020.06-2023.06
XIAO Xing	Independent Non-executive Director	2015.03-2021.05
WANG Xinxin.	Independent Non-executive Director	2016.05-2022.05
HUANG Zhenzhong	Independent Non-executive Director	2017.09-2023.09
LEUNG KO May Yee, Margaret	Independent Non-executive Director	2019.07-2022.07
LIU Shouying	Independent Non-executive Director	2019.07-2022.07

Executive Directors

Mr. ZHOU Mubing holds a Doctor's degree in Economics from Renmin University of China and is a senior economist. Mr. ZHOU has served as the Chairman of the Board of Directors and an Executive Director of the Bank since July 2016. Mr. ZHOU successively worked in several places, including the production team of Rongchang County of Sichuan Province, Sichuan Rongchang No. 4 Middle School and Sichuan Finance and Economics College as a teacher, and the State Commission for Restructuring the Economic Systems. Mr. ZHOU served successively in several positions in Industrial and Commercial Bank of China, including assistant president of the Hainan Branch and concurrently president of the Yangpu Branch, director of Policy and Research Department of the head office and president of the Fujian Branch. Mr. ZHOU served successively as deputy chief executive, acting chief executive and chief executive of Yubei District in Chongqing Municipality, director general of General Office of Chongqing Municipal Government, and secretary general of Chongqing Municipal Government. He was appointed as vice mayor of Chongqing Municipal Government in March 2004 and vice chairman of the CBRC in December 2010.

Mr. ZHANG Qingsong received a Master's degree majoring in Economics from the Graduate School of the People's Bank of China and is an associate researcher. Mr. ZHANG was appointed as the President of the Bank in November 2019 and has served as the Vice Chairman of the Board of Directors, Executive Director and President since January 2020. Mr. ZHANG successively served in several positions in the Bank of China, including the deputy general manager of the Asset – Liability Management Department, deputy general manager of the Treasury, director of the Global Markets Department, director of the Global Markets Unit, general manager of the Global Markets Unit, general manager of the Hong Kong Trading Center (Hong Kong Branch), general manager of Singapore Branch and general manager of the Clearing Department of the head office. Mr. ZHANG was appointed as the executive vice president of the Bank of China in November 2016, and an executive director as well as the vice president of the Bank of China in August 2018. He was appointed as the vice chairman and president of the Export-Import Bank of China in December 2018.

Ms. ZHANG Keqiu received a Master's degree in Economics from Nankai University. Ms. ZHANG is a senior accountant and an expert entitled to Government Special Allowance granted by the State Council. Ms. ZHANG was appointed as the secretary to the Board of Directors of the Bank in June 2015, as an Executive Vice President and the secretary to the Board of Directors of the Bank in July 2017, and as an Executive Vice President of the Bank in April 2018. Ms. ZHANG has served as an Executive Director and an Executive Vice President of the Bank since April 2019. Ms. ZHANG had previously served in various positions in the Bank, including the general manager of Asset and Liability Management Department, the general manager of Finance and Accounting Department and the chief financial officer. Ms. ZHANG is concurrently a deputy secretary-general of executive committee of the Banking Accounting Society of China and the vice chairperson of the fifth session of the board of directors of China National Bond Association.

Non-executive Directors

Mr. LIAO Luming holds a Doctor's degree in public finance from the Public Finance Science Institute of the Ministry of Finance (the "**MOF**"). He currently works with Central Huijin Investment Ltd. Mr. LIAO has served as a Non-executive Director of the Bank since August 2017. He started working at the MOF in August 1985, and served successively as the principal staff of the Research Division, the deputy director and director of the Information Division, and director of the News Division at the General Office of MOF. He was appointed as deputy director of the General Office of MOF in January 2003, bureau level cadre of the Party Committee of MOF in January 2012 and executive vice secretary (bureau level) of the party committee of MOF in February 2012.

Mr. LI Qiyun holds a Master's degree in quantitative economics from the Information Department of Renmin University of China and is qualified as a senior engineer. He currently works with Central Huijin Investment Ltd. Mr. LI has served as a Non-executive Director of the Bank since June 2018. He previously served as an assistant engineer and engineer at the Computing Center of the MOF, a deputy director, senior engineer, deputy chief engineer (director level) and deputy general manager (deputy bureau level) of the Information Network Center of the MOF.

Mr. LI Wei graduated from Zhejiang University of Finance and Economics with a Bachelor's degree in Finance and is a senior accountant. He currently works with Central Huijin Investment Ltd., and has served as a Non-executive Director of the Bank since May 2019. He previously served as a deputy director clerk, a director clerk and a deputy director of the Budget Office of Ningbo Finance and Taxation Bureau, as well as a deputy director, a director, an assistant commissioner and a deputy supervisor of the First Division of the Office of the Ministry of Finance in Ningbo.

Mr. WU Jiangtao holds a Doctor's degree from the Chinese Academy of Fiscal Sciences of the MOF and is a senior accountant. He currently works with Central Huijin Investment Ltd. Mr. WU has served as a Non-executive Director of the Bank since July 2019. He previously served as a project manager, a deputy department manager, a department manager, and a partner of Chongqing Pan-China Certified Public Accountants Co., Ltd., as well as a deputy general manager of the audit department of the head office of Hua Xia Bank Co., Ltd. and deputy president of the Beijing branch. Since September 2016, he has served as a general manager of the audit department of the head office of Hua Xia Bank Co., Ltd.

Mr. ZHU Hailin received a Doctor's degree in Economics from the Chinese Academy of Fiscal Sciences. He is an expert entitled to Government Special Allowance granted by the State Council, a certified public accountant in China (a non-practicing member), and a supervisor for Ph.D. candidates. He currently works with Central Huijin Investment Ltd. and has served as a non-executive director of China Construction Bank Corporation since July 2017. Since August 1992, he had served successively as the deputy division-chief and division-chief of the Accounting Department of the MOF, and the deputy director of National Accountant Assessment & Certification Center of the MOF (deputy bureau level).

Independent Non-executive Directors

Ms. XIAO Xing holds a Doctor's degree in Accounting. She currently works as a professor and the head of Tsinghua SEM Department of Accounting and a vice dean of the Institute for Global Private Equity of Tsinghua University. She has served as an Independent Non-executive Director of the Bank since March 2015. She visited Harvard University, Massachusetts Institute of Technology as well as University of Wisconsin for study and as a senior visiting scholar. She was elected as a Fulbright scholar in 2011. Ms. XIAO Xing previously served as a member of the expert panel of China Development Bank, an independent advisory expert for the World Bank, an independent director of Beijing Thunisoft Co., Ltd. and an independent director of Goertek Inc., etc. She concurrently serves as a member of China National MPAcc Education Steering Committee, a member of the MPAcc Education Steering Committee of the Ministry of Education, and an independent director of Mango Excellent Media Co., Ltd., Bloomage Biotech Co., Ltd. and Aixin Life Insurance Co., Ltd.

Mr. WANG Xinxin holds a Master's degree in law and is currently a teacher in the Economic Law Teaching and Research Office of the School of Law, and a professor and supervisor for Ph.D. candidates of Renmin University of China. He has served as an Independent Non-executive Director of the Bank since May 2016. He previously worked in NPC Financial and Economic Committee as a member of the Drafting Group for Enterprise Bankruptcy Law. He concurrently serves as the director of Bankruptcy Law Research Center of Renmin University of China, the president of Beijing Bankruptcy Law Society, the honorary president of Enterprise Bankruptcy and Reorganization Panel of Shandong Law Society, the honorary president of Bankruptcy Law Panel of Guangdong Law Society, the honorary president of Bankruptcy and Reorganization Panel of Shanxi Law Society, the honorary president of Enterprise Bankruptcy and Reorganization Panel of Hunan Law Society, a consultant for the Bankruptcy Law Research Institute of the Shanghai Law Society, a consultant for the Bankruptcy Law Research Institute of the Henan Law Society, an executive member of Economic Law Research Institute of the China Law Society and an executive member of the Beijing Law Society. Mr. WANG Xinxin is a consultant in the Drafting Group for Judicial Interpretations of Bankruptcy Law, one of the first chief researchers of Judicial Case Research Institute of the Supreme People's Court. He has served in the United Nations Commission on International Trade Law Working Group V (Insolvency Law) as an expert advisor to PRC delegation since 2015. He also serves as an independent director of each of Unisplendour Corporation Limited, Hainan Jingliang Holdings Co., Ltd. and Cnano Technology Limited.

Mr. HUANG Zhenzhong holds a Doctor's degree in law. He is currently a professor and a supervisor for Ph.D. candidates of the School of Law in Beijing Normal University, and a deputy director of Chinese Entrepreneurs Crime Prevention Research Center. He has served as an Independent Non-executive Director of the Bank since September 2017. He previously served as a vice director and a senior economist of the Enterprise Reform Division at the Asset Management Department of Sinopec Group, a deputy head of School of Law and a director of the Legal Counsel Office in School of Law of Beijing Normal University, and a deputy chief prosecutor, a member of the Committee of Inspection of the Procuratorate of Tibet Autonomous Region and an independent director of Ciwen Media Co., Ltd. He is currently the vice chairman of China – ASEAN Legal Cooperation Center, an executive director of the Energy Law Research Committee of China Law Society, an arbitrator of China International Economic and Trade Arbitration Commission, a panel mediator with the Mediation Center of China Chamber of International Commerce, an arbitrator of Tianjin Arbitration Commission, an arbitrator of Hainan Arbitration Commission, a lifetime honorary director of Beijing Jingshi Law Firm, a member of the Chartered Institute of Arbitrators, and an independent director of Sinopec Oilfield Equipment Corporation, CECEP Solar Energy Technology Co., Ltd. and Yunnan Jinggu Forestry Co., Ltd.

Ms. LEUNG KO May Yee, Margaret, holds a Bachelor's Degree in Economics, Accounting and Business Administration from the University of Hong Kong. Ms. Leung was awarded Silver Bauhinia Star and Justice of the Peace by the HKSAR. She has served as an Independent Non-executive Director of the Bank since July 2019. She previously served as a vice chairman and the chief executive of Chong Hing Bank Limited, a vice chairman and the chief executive of Hang Seng Bank Limited, the general manager and global cohead of Industrial and Commercial Business of HSBC Group, a director of HSBC, and a director of Wells Fargo HSBC Trade Bank; she was an independent non-executive director of China Construction Bank, Hong Kong Exchanges and Clearing Limited, QBE Insurance Group Limited (listed on the Australian Securities Exchange), etc. She currently serves as an independent non-executive director of First Pacific Company Limited, Li & Fung Limited and Sun Hung Kai Properties Limited., and a member of the National Committee of the Chinese People's Political Consultative Conference.

Mr. LIU Shouying serves as a second-level professor and supervisor for Ph.D. candidates in School of Economics, Renmin University of China, vice president of the Chinese Association of Agro-Technical Economics, executive director of the China Land Science Society, and vice president of China International Association for Urban and Rural Development. He has served as an Independent Non-executive Director of the Bank since July 2019. He previously served as a deputy secretary-general of the Academic Committee of the Development Research Center of the State Council, a deputy minister of the Rural Economic Research Department, a director of the Urban and Rural Coordination Fundamental Area of the Development Research Center of the State Council, and the president and chief editor of China Economic Times.

Supervisors

The following table sets out certain information relating to the Bank's supervisors.

Name	Position
WANG Jingdong	Chairman of the Board of Supervisors, Supervisor Representing Shareholders
XIA Taili	Supervisor Representing Employees
SHAO Lihong	Supervisor Representing Employees
WU Gang	Supervisor Representing Employees
LI Wang	External Supervisor
ZHANG Jie	External Supervisor
LIU Hongxia	External Supervisor

Mr. WANG Jingdong holds a Bachelor's degree in Agronomy from Huazhong Agricultural College and is a senior engineer. He has served as the Chairman of the Board of Supervisors and a Supervisor Representing Shareholders of the Bank since November 2018. He successively worked in the Ministry of Agriculture, Animal Husbandry and Fisheries, the State Economic Commission and State Agriculture Investment Corporation. Mr. WANG successively served in several positions in China Development Bank, including an executive vice president of the Heilongjiang branch, a vice general manager of the human resources department of the head office, the general manager of the project appraisal department III of the head office, the president of Beijing branch and the general manager of human resources department of the head office. He served as an executive vice president of Industrial and Commercial Bank of China Limited since December 2013 and an executive director and executive vice president of Industrial and Commercial Bank of China Limited since December 2016.

Mr. XIA Taili graduated with a college diploma and has served as a Supervisor Representing Employees of the Bank since August 2018. He previously served as a director of the Second Division and the General Division in the Second Discipline Inspection Office of the Central Commission for Discipline Inspection, a deputy bureau level discipline inspection commissioner and a supervisor in the Second Discipline Inspection Office of the Central Commission for Discipline Inspection, a deputy bureau level discipline inspection commissioner and a supervisor in the Seventh Discipline Inspection Office of the Central Commission for Discipline Inspection. Mr. XIA previously served successively in several positions in the Bank, including the dean of the Office of the Leading Group of Inspection Work in February 2013, the deputy secretary of the Party Discipline Committee and the general manager of the Inspection and Supervision Department in April 2014, and a Supervisor Representing Employees, the deputy secretary of the Party Discipline Committee and the general manager of the Inspection and Supervision Department in December 2014, and a Supervisor Representing Employees, the deputy secretary of the Party Discipline Committee and the president of the Inspection and Supervision Bureau in March 2015, and a Supervisor Representing Employees, the deputy secretary of the Party Discipline Committee, the president of the Inspection and Supervision Bureau and the dean of the Office of the Leading Group of Inspection Work in September 2015, the deputy secretary of the Party Discipline Committee, the president of the Inspection and Supervision Bureau and the dean of the Office of the Leading Group of Inspection Work in January 2018, and a Supervisor Representing Employees, the deputy chief of the Discipline Inspection and Supervision Team of the Central Commission for Discipline Inspection and National Commission of Supervision stationed in the Bank in April 2019.

Mr. SHAO Lihong, holds a Master's degree in Economics and is a senior economist. He has served as a Supervisor Representing Employees of the Bank since August 2018. Mr. SHAO previously served successively in several positions in the Bank, including the deputy director level secretary of the Secretariat of the Office, the deputy director of the Real Estate Development Division, the Real Estate Development Division II and the General Business Division of the Real Estate Credit Department, the director of the Individual Housing Business Division of the Real Estate Credit Department, the director of the Housing Credit Division of the Individual Business Department, the director of the Housing Credit Division of the Housing Finance and Retail Credit Department, the deputy general manager of the Housing Finance and Retail Credit Department, the deputy general manager of the Retail Banking Department. He served as the director of the Trade Union Affairs Department/United Front Work Department of the Bank in April 2018.

Mr. WU Gang holds a Master's degree from Tianjin University specialising in Management Engineering and is a senior economist. He has been serving as a Supervisor Representing Employees of the Bank since October 2019. He previously served as the assistant to the general manager and the deputy general manager of the corporate banking department of the Bank, the general manager of the Big Client Department/Business Department and concurrently the member of party committee and vice president of the Beijing Branch. He served as the secretary of party committee and president of the Henan Branch in June 2014. He has been the general manager of Audit Office of the Head Office since May 2018.

Mr. LI Wang holds a Doctor's degree in Law. He has served as an External Supervisor of the Bank since June 2015. He has worked in the School of Law of Tsinghua University since November 1997 and is now a professor and supervisor for Ph.D. candidates for the university. He previously worked as a teaching assistant at the Faculty of Law of Kyoto University and as a lawyer at Sakamoto Law Firm in Japan, Oh-Ebashi LPC & Partners in Japan and J&R Law Firm in Beijing. He concurrently serves as a lawyer at the Tiantai Law Firm in Beijing and an independent director of Beijing Capital Land Ltd.

Mr. ZHANG Jie holds a Doctor's degree in Economics. He has served as an External Supervisor of the Bank since November 2018. He is a distinguished professor of the "Changjiang Scholars Programme" of the Ministry of Education, an Outstanding Teacher in the national "Ten Thousand Talent Program", and an expert entitled to Government Special Allowance granted by the State Council. He previously served as the dean of the School of Finance of Shaanxi Finance and Economic Institute, a deputy dean of the School of Economics and Finance of Xi'an Jiaotong University and a deputy dean of the School of Finance of Renmin University of China, etc. He currently serves as a secondlevel professor, a supervisor for Ph.D. candidates and the president of the International Monetary Institute (IMI) of the School of Finance of Renmin University of China, executive member of China Society for Finance and Banking, China International Finance Society, China Urban Financial Society and China Rural Financial Society, etc.

Ms. LIU Hongxia holds a Doctor's degree in Management. She has served as an External Supervisor of the Bank since November 2018. From 1999 until now, she has been working as a professor, a supervisor for Ph.D. candidates, and a co-advisor for postdoctoral at the School of Accounting of Central University of Finance and Economics. She previously worked as a teaching assistant at Beijing Institute of Finance and Trade, a lecturer of Shandong University of Finance, an auditor of Zhongzhou Certified Public Accountants in Beijing, and a deputy professor of Central Financial Management Cadre College.

She previously served as independent director for China Merchants Bank, Fangda Special Steel Technology Co., Ltd., Beijing AriTime Intelligent Control Co., Ltd., Shanghai New Huang Pu Real Estate Co., Ltd., and Langold Real Estate Co., Ltd., etc. She currently serves as an independent director of Cinda Real Estate Co., Ltd., Nanjing Tanker Corporation of China Changjiang National Shipping Group Co. Ltd., Joyoung Co., Ltd., Shandong Humon Smelting Co., Ltd., Hebei Xingtai Rural Commercial Bank Company Limited, etc.

Senior management

The following table sets out certain information relating to the Bank's senior management.

Name	Position
ZHANG Qingsong	Vice Chairman of the Board of Directors, Executive Director and President
ZHANG Xuguang.	Executive Vice President
ZHANG Keqiu	Executive Director, Executive Vice President
ZHAN Dongsheng	Executive Vice President
CUI Yong	Executive Vice President
LI Zhicheng	Chief Risk Officer

For the detailed biographies of Mr. ZHANG Qingsong and Mr. ZHANG Keqiu, see "Directors" above. The biographies of other senior management personnel are as follows:

Mr. ZHANG Xuguang, received a Master's degree in Law from Peking University and a master's degree in law from Minnesota State University in the United States, and is a senior economist. He has served as an Executive Vice President of the Bank since December 2019. He worked for China National Aero-Technology Import & Export Corporation. In addition, Mr. ZHANG previously served as the vice president of Tianjin branch and the deputy general director of the Executive Office, and the president of the Guangxi Zhuang Autonomous Region branch of the China Development Bank. Mr. ZHANG also served as the president of China Development Bank Capital Co., Ltd. and the investment director of China Development Bank. In December 2013, he was appointed as an executive vice president of China Development Bank.

Mr. ZHAN Dongsheng received a Bachelor's degree in Agronomy from Southwest Agriculture University, and is a senior agricultural economist. Since April 2019, he has served as an Executive Vice President of the Bank. He worked at the Ministry of Agriculture, and successively served as an assistant inspector and an inspector of the rural area group under the Office of the Central Leading Group on Finance and Economics. Mr. ZHAN also successively served as the deputy general manager and general manager of Sannong Policy and Planning Department, the general manager of the Office, as well as the president of Sichuan Branch of the Bank. Concurrently, he works as the director of Shanghai Management Department of the Bank.

Mr. CUI Yong received a Bachelor's degree in Engineering from Xi'an Highway Institute and is a senior economist. He has served as an Executive Vice President of the Bank since May 2019. Mr. CUI successively worked at the Ministry of Transport and the National Development and Reform Commission. He also served in various positions in the Industrial and Commercial Bank of China, including the deputy general manager of the first corporate business department, the vice president of Qingdao branch, the president of Xiamen branch, the vice president of Beijing branch, and the general manager of the corporate banking department of the head office. Mr. CUI previously held concurrent posts as the secretary general of the Syndications Committee of the China Banking Association and an expert of the National Association of Financial Market Institutional Investors. Mr. CUI concurrently serves as an executive vice president of the Payment & Clearing Association of China.

Mr. LI Zhicheng received a master's degree in economics from Shaanxi College of Finance and Economics. Mr. LI has served as the Chief Risk Officer of the Bank since February 2017. Mr. LI previously served in several positions in the Bank, including an assistant president of Wuhan Cadre Management College of the Bank, a deputy director of Research Office of the Head Office and a vice president of Hebei Branch. From June 2005, Mr. LI successively served as the director of Research Office of the Bank, the president of Jilin Branch and the president of Jiangsu Branch. From July 2014, Mr. LI served as Chief Investment Officer of the Bank and concurrently held the position of general manager of Hong Kong Branch.

COMPANY SECRETARY

On 24 March 2020, Mr. ZHOU Wanfu resigned as the company secretary of the Bank due to work arrangements. The Bank is in the process of identifying a suitable candidate to fill the vacancy of the company secretary of the Bank.

SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors established the Strategic Planning Committee, the County Area Banking Business/Inclusive Finance Development Committee, the Nomination and the Remuneration Committee, the Audit and Compliance Committee and the Risk Management/Consumers' Interests Protection Committee (which established the Related Party Transactions Management Committee thereunder) and the Risk Management Committee of Institutions in the United States Regions (responsibilities of which are concurrently assumed by the Risk Management/Consumers' Interests Protection Committee).

Strategic Planning Committee

The Strategic Planning Committee of the Board of Directors currently comprises six directors, including Mr. ZHOU Mubing (Chairman), Ms. ZHANG Keqiu (Executive Director), Mr. LIAO Luming, Mr. LI Qiyun and Mr. ZHU Hailin (all are Non-executive Directors) and Ms. XIAO Xing (Independent Non-executive Director). Mr. ZHOU Mubing, the Chairman of the Board of Directors, is the chairman of the Strategic Planning Committee. The primary duties of the Strategic Planning Committee are to review the overall strategic development plan and specific strategic development plans, major investment and financing plans, establishment of legal entities and other material matters critical to our development and to make suggestions to the Board of Directors.

County Area Banking Business/Inclusive Finance Development Committee

The County Area Banking Business/Inclusive Finance Development Committee of the Board of Directors currently comprises five Directors, including Mr. LIAO Luming, Mr. LI Wei and Mr. WU Jiangtao (all are Non-executive Directors), as well as Ms. XIAO Xing and Mr. LIU Shouying (both are Independent Non-executive Directors). The primary duties of the County Area Banking Business/Inclusive Finance Development Committee are to review the strategic development plan, policies and basic management rules, risk management strategic plan and other major matters in relation to the development of the County Area Banking Business/Inclusive Finance, as well as supervise the implementation of the strategic development plan, policies and basic management rules of the County Area Banking Business/Inclusive Finance, and to provide suggestions to the Board of Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors currently comprises six directors, including Mr. LI Wei and Mr. ZHU Hailin (both are Non-executive Directors), Ms. XIAO Xing, Mr. WANG Xinxin, Mr. HUANG Zhenzhong and Mr. LIU Shouying (all are Independent Non-executive Directors). Mr. WANG Xinxin is the chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairman and members of special committees and senior management members, and to make recommendations regarding the proposed candidates for directors and senior management members and their qualifications to the Board of Directors, as well as to formulate the remuneration policies for directors and senior management members, and to submit the remuneration packages to the Board of Directors for consideration.

Audit and Compliance Committee

The Audit and Compliance Committee of the Board of Directors currently comprises five directors, including Mr. LI Wei and Mr. WU Jiangtao (both are Non-executive Directors), Ms. XIAO Xing, Ms. LEUNG KO May Yee, Margaret and Mr. LIU Shouying (all are Independent Non-executive Director). Ms. XIAO Xing is the chairwoman of the Audit and Compliance Committee. The primary duties of the Audit and Compliance Committee are to review the Bank's internal control and management policy, material financial and accounting policies, audit general managements systems and regulations, medium- and long-term audit plan and annual work plan, and to make suggestions to the Board of Directors; as well as to review and approve the Bank's general policy on prevention and control of cases of violation, and to effectively scrutinize and oversee the Bank's prevention and control of cases of violation.

Risk Management/Consumers' Interests Protection Committee

The Risk Management Committee of the Board of Directors currently comprises seven directors, including Ms. ZHANG Keqiu (Executive Director), Mr. LIAO Luming, Mr. LI Qiyun and Mr. WU Jiangtao (all are Non-executive Directors), Mr. WANG Xinxin, Mr. HUANG Zhenzhong and Ms. LEUNG KO May Yee, Margaret (all are Independent Non-executive Directors). Mr. HUANG Zhenzhong is the chairman of the Risk Management/Consumers' Interests Protection Committee. The primary duties of the Risk Management/Consumers' Interests Protection Committee are to review the Bank's strategic plan of risk management, risk appetite, material risk management policies, risk management report and allocation plan of risk-weighted capital, to review the Bank's strategies, policies and objectives of consumer protection, to continuously oversee the risk management system, to supervise and evaluate the Bank's work in risk management and consumers' interest protection, and to provide suggestions to the Board of Directors.

Related Party Transactions Management Committee

The Related Party Transactions Management Committee of the Board of Directors currently comprises three directors, including Mr. Wang Xinxin, Mr. HUANG Zhenzhong and Ms. LEUNG KO May Yee, Margaret (all are Independent Non-executive Directors). Mr. LEUNG KO May Yee, Margaret is the chairman of the Related Party Transactions Management Committee. The primary duties of the Related Party Transactions Management Committee are to identify related parties of the Bank, review the Bank's general management system for related party transactions, review and record the related party transactions, and make suggestions to the Board of Directors.

Risk Management Committee of Institutions in the United States Regions

The Risk Management Committee of Institutions in the United States Regions of the Board of Directors currently comprises seven directors, including Ms. ZHANG Keqiu (Executive Director), Mr. LIAO Luming, Mr. LI Qiyun and Mr. WU Jiangtao (all are Non-executive Directors), Mr. WANG Xinxin, Mr. HUANG Zhenzhong and Ms. LEUNG KO May Yee, Margaret (all are Independent Non-executive Directors). Mr. HUANG Zhenzhong is the chairman of the Risk Management Committee of Institutions in the United States Regions. The primary duties of the Risk Management Committee of Institutions in the United States Regions are to review and approve the risk management policies in relation to businesses in the United States regions and supervise its implementation, as well as to review issues identified in the internal and external inspection of institution in the United States regions and the report on relevant rectification, and other matters authorized by the Board of Directors. Responsibilities of the Risk Management Committee of Institutions in the United States Regions are concurrently assumed by the Risk Management/Consumers' Interests Protection Committee.

CONFLICTS OF INTEREST

As far as is known to the Bank, no potential conflicts of interest exist between any duties to the Bank of any directors or senior management and their private or other duties.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all 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 consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

PRC Taxation

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC and its implementation regulations, enterprises that are established under laws of foreign countries and regions whose "de facto management bodies" are within the territory of the PRC are deemed as PRC tax resident enterprises for the purpose of the Enterprise Income Tax Law. Unless otherwise tax reduction or exemption is available to the enterprise, a resident enterprise shall pay enterprise income tax at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer or the enterprise holder of the Notes is within the territory of the PRC, the Issuer or the enterprise holder of the Notes will be deemed as a PRC tax resident enterprise for the purpose of the Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. on its income from sources both within and outside PRC, unless tax reduction or exemption is available to the Issuer or the enterprise holder of the Notes.

Withholding Tax

The Enterprise Income Tax Law and its implementation regulations impose a withholding tax at the rate of 10 per cent. on PRC-source income paid to a "nonresident enterprise" that does not have an establishment or place of business or production in PRC or that has an establishment or place of business or production in PRC but the relevant income is not effectively connected therewith. Pursuant to these provisions of the Enterprise Income Tax Law and its implementation regulations, in the event the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, interest payable to or capital gain realized by nonresident enterprise holders of the Notes may be treated as income derived from sources within PRC and subject to such PRC withholding tax.

Further, the Individual Income Tax Law of the PRC and its implementation regulations impose a withholding tax on any income from sources both within and outside the PRC paid to any individual who has a domicile within the PRC or has no domicile but has stayed in the PRC for 183 days or more cumulatively within a tax year and on any income from sources within PRC paid to any individual who has no domicile in the PRC and has not stayed in the PRC for fewer than 183 days cumulatively within a tax year. If the individual holder of the Notes has a domicile within the PRC or has no domicile but has stayed in the PRC for 183 days or more cumulatively within a tax year, any interest payable to or any capital gain realized by such individual holder of the Notes will be subject to a 20 per cent. individual income tax. If the Issuer is considered a PRC tax resident enterprise, any interest payable to or any capital gain realized by individual holders of the Notes who have no domicile within the PRC and has not stayed in the PRC for fewer than 183 days cumulatively within a tax year may be treated as income derived from sources within PRC and subject to a 20 per cent. individual income tax.

To the extent that PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside PRC.

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).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the ''Inland Revenue Ordinance'') as it is currently applied by the Inland Revenue Department, 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:

(a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) 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

(c) 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

(d) 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 Inland Revenue Ordinance).

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, 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.

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 the Notes will be subject to 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 Inland Revenue Ordinance) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

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

Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**"). However, Estonia has since stated that it will not participate in the proposal.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

The FTT proposal remains subject to negotiation between the Participating Member States and it may be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

United States FATCA Tax Provisions

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, 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 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. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as 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, 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, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "*Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

Singapore

*The statements below are general in nature and are based on certain aspects of current tax laws in Singapore and administrative guidelines and circulars issued by the Inland Revenue Authority of Singapore and the Monetary Authority of Singapore (the "**MAS**") in force as at the date of this Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, guidelines or circulars, occurring after such date, which changes could be made on a retroactive basis. These laws, guidelines and circulars are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Offering Circular are intended or are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements made herein do not purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive(s)) may be subject to special rules or tax rates. Holders and prospective holders of the Notes are advised to consult their own professional tax advisors as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Notes, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasised that none of the Issuer, the Arranger and any other persons involved in the Programme or the issue of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Notes.*

*In addition, if Notes are issued as perpetual securities, the disclosure below is on the assumption that the Inland Revenue Authority of Singapore regards such tranche of perpetual Notes as "debt securities" for the purposes of the Income Tax Act, Chapter 134 of Singapore (the "**ITA**") and that interest* *payments made under each tranche of such perpetual Notes will be regarded as interest payable on indebtedness and holders thereof may therefore enjoy the tax concessions and exemptions available to qualifying debt securities, provided that the other conditions for the Qualifying Debt Securities scheme are satisfied. If any tranche of such perpetual Notes is not regarded as "debt securities" for the purposes of the ITA and holders thereof are not eligible for the tax concessions under the Qualifying Debt Securities scheme, the tax treatment to holders may differ. Investors and holders of any tranche of such perpetual Notes should consult their own professional accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of any tranche of perpetual Notes.*

The disclosure in paragraphs 1 to 3 and 5 to 7 below summarises the income tax treatment currently applicable where the Issuer is Agricultural Bank of China Limited Singapore Branch or any other entity which is resident in Singapore for the purposes of the ITA.

1 Interest and Other Payments

Subject to the following paragraphs, under Section 12(6) of the ITA, the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15 per cent. final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17 per cent. The applicable rate for non-resident individuals is currently 22 per cent.. However, if the payment is derived by a person not resident in Singapore from sources other than from its trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15 per cent. The rate of 15 per cent. may be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

(a) interest from debt securities derived on or after 1 January 2004;

(b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after 17 February 2006; and

(c) prepayment fee, redemption premium or break cost from debt securities derived on or after 15 February 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession.

2 Withholding Tax Exemption on Payments by (amongst others) Licensed Banks

Payments falling within Section 12(6) of the ITA and made by (amongst certain other persons) licensed banks in Singapore to persons who are non-Singapore tax-residents (other than permanent establishments in Singapore):

(a) between 1 April 2011 and 31 March 2021; or

(b) on a contract which takes effect between 1 April 2011 and 31 March 2021,

will be exempt from tax, provided the payments are made for the purposes of the licensed bank's business in Singapore and the payments do not arise from a transaction to which the general anti-avoidance provisions in Section 33 of the ITA applies.

With effect from 17 February 2012, (amongst certain other persons) licensed banks are no longer required to withhold tax on payments falling within Section 12(6) of the ITA which they are liable to make to permanent establishments in Singapore of a non-resident person:

(a) between 17 February 2012 and 31 March 2021 on contracts that take effect before 17 February 2012; and

(b) on or after 17 February 2012 on contracts that take effect between 17 February 2012 to 31 March 2021.

With effect from 21 February 2014, the expiry date of 31 March 2021 referred to in the immediately preceding paragraph does not apply to payments to Singapore branches of non-resident persons as the requirement to withhold tax from payments to Singapore branches has been lifted.

Notwithstanding the immediate preceding paragraph, permanent establishments in Singapore of a non-resident person are required to declare such payments in their annual income tax returns and will be assessed to tax on such payments (unless specifically exempt from tax).

3 Qualifying Debt Securities Scheme

If a Tranche of Notes is issued under the Programme (the "**Relevant Notes**") on or before 31 December 2018 and if more than half of the Relevant Notes are distributed by a Financial Sector Incentive (Capital Market) Company, a Financial Sector Incentive (Standard Tier) Company or a Financial Sector Incentive (Bond Market) Company (each as defined in the ITA), the Relevant Notes would be "**qualifying debt securities**" pursuant to the ITA and the MAS Circular FSD Cir 02/2013 entitled "Extension and Refinement of Tax Concessions for Promoting the Debt Market" issued by the MAS on 28 June 2013 (the "**MAS Circular**"), to which the following treatments shall apply:

(i) subject to certain prescribed conditions having been fulfilled (including the furnishing to the MAS and such other relevant authorities as may be prescribed of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with the Relevant Notes as the relevant authorities may require, and the inclusion by the Issuer in all offering documents relating to the Relevant Notes of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from the Relevant Notes is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the Relevant Notes using funds from that person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Qualifying Income**") from the Relevant Notes derived by a holder who is not resident in Singapore and who (aa) does not have any permanent establishment in Singapore or (bb) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the Relevant Notes are not obtained from such person's operation through a permanent establishment in Singapore, are exempt from Singapore tax;

(ii) subject to certain conditions having been fulfilled (including the furnishing of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with the Relevant Notes as the relevant authorities may require to the MAS and such other relevant authorities as may be prescribed), Qualifying Income from the Relevant Notes derived by any company or body of persons (as defined in the ITA) in Singapore is subject to income tax at a concessionary rate of 10 per cent. (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates); and

(iii) subject to:

(aa) the Issuer including in all offering documents relating to the Relevant Notes a statement to the effect that any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Relevant Notes is not exempt from tax shall include such income in a return of income made under the ITA; and

(bb) the furnishing to the MAS and such other relevant authorities as may be prescribed of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with the Relevant Notes as the relevant authorities may require,

payments of Qualifying Income derived from the Relevant Notes are not subject to withholding of tax by the Issuer.

However, notwithstanding the foregoing:

A. if during the primary launch of any tranche of the Relevant Notes, the Relevant Notes of such tranche are issued to less than four persons and 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Relevant Notes would not qualify as "qualifying debt securities"; and

B. even though a particular tranche of Relevant Notes are "qualifying debt securities", if at any time during the tenure of such tranche of Relevant Notes, 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from such Relevant Notes held by:

(i) any related party of the Issuer; or

(ii) any other person where the funds used by such person to acquire such Relevant Notes are obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax as described above.

The term "**related party**", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "**break cost**", "**prepayment fee**" and "**redemption premium**" are defined in the Income Tax Act as follows:

(a) "**break cost**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

(b) "**prepayment fee**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

(c) "**redemption premium**", in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to "break cost", "prepayment fee" and "redemption premium" in this Singapore tax disclosure have the same meaning as defined in the Income Tax Act.

Where interest, discount income, prepayment fee, redemption premium or break cost (i.e. the Qualifying Income) is derived from any of the Relevant Notes by any person who is not resident in Singapore and who carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for "qualifying debt securities" under the ITA (as mentioned above) shall not apply if such person acquires such Relevant Notes using the funds and profits of such person's operations through a permanent establishment in Singapore.

Notwithstanding that the Issuer is permitted to make payments of Qualifying Income in respect of the Relevant Notes without deduction or withholding for tax under Section 45 or Section 45A of the ITA, any person whose interest, discount income, prepayment fee, redemption premium or break cost (i.e. the Qualifying Income) derived from the Relevant Notes is not exempt from tax is required to include such income in a return of income made under the ITA.

The disclosure in paragraphs 4 to 7 below summarises the income tax treatment currently applicable where the Issuer is not resident in Singapore and not a Singapore Branch of a non-resident person for the purposes of the ITA.

4 Qualifying Debt Securities Scheme

If a Tranche of Notes is issued under the Programme (the "**Relevant Notes**") on or before 31 December 2018 and if more than half of the Relevant Notes are distributed by a Financial Sector Incentive (Capital Market) Company, a Financial Sector Incentive (Standard Tier) Company or a Financial Sector Incentive (Bond Market) Company, the Relevant Notes would be "**qualifying debt securities**" pursuant to the ITA and the MAS Circular, to which the following treatment shall apply: subject to certain conditions having been fulfilled (including the furnishing to the MAS and such other relevant authorities as may be prescribed of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with the Relevant Notes as the relevant authorities may require), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Qualifying Income**") from the Relevant Notes derived by any company or body of persons (as defined in the ITA) in Singapore is subject to income tax at a concessionary rate of 10 per cent. (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates).

However, notwithstanding the foregoing:

A. if during the primary launch of any tranche or the Relevant Notes, the Relevant Notes of such tranche are issued to less than four persons and 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Relevant Notes would not qualify as "qualifying debt securities"; and

B. even though a particular tranche of Relevant Notes are "qualifying debt securities", if at any time during the tenure of such tranche of Relevant Notes, 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from such Relevant Notes held by:

   (i) any related party of the Issuer; or

   (ii) any other person where the funds used by such person to acquire such Relevant Notes are obtained, directly or indirectly, from any related party of the Issuer,

   shall not be eligible for concessionary rate of tax as described above.

The term "**related party**", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "**break cost**", "**prepayment fee**" and "**redemption premium**" are defined in the Income Tax Act as follows:

(a) "**break cost**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

(b) "**prepayment fee**", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

(c) "**redemption premium**", in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to "break cost", "prepayment fee" and "redemption premium" in this Singapore tax disclosure have the same meaning as defined in the Income Tax Act.

5 Capital Gains

Any gains considered to be in the nature of capital made from the sale of the Notes will not be taxable in Singapore. However, any gains derived by any person from the sale of the Notes which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Holders of the Notes who apply or are required to apply Singapore Financial Reporting Standard 39 ("**FRS 39**") may for Singapore income tax purposes be required to recognise gains or losses (not being gains or losses in the nature of capital) on the Notes, irrespective of disposal, in accordance with FRS 39. Please see the section below on "*Adoption of FRS 39 Treatment for Singapore Income Tax Purposes*".

6 Adoption of FRS 39 Treatment for Singapore Income Tax Purposes

The Inland Revenue Authority of Singapore has issued a circular entitled "Income Tax Implications Arising from the Adoption of FRS 39 – Financial Instruments: Recognition and Measurement" (the "**FRS 39 Circular**"). The ITA has since been amended to give effect to the FRS 39 Circular.

The FRS 39 Circular generally applies, subject to certain "opt-out" provisions, to taxpayers who are required to comply with FRS 39 for financial reporting purposes.

Holders of the Notes who may be subject to the tax treatment under the FRS 39 Circular should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Notes.

The Accounting Standards Council has issued a new financial reporting standard for financial instruments, FRS 109 – Financial Instruments, which will become mandatorily effective for annual periods beginning on or after 1 January 2018. The Inland Revenue Authority of Singapore has issued a consultation paper "Proposed Income Tax Treatment Arising from the Adoption of FRS 109 – Financial Instruments" on 1 July 2016 and the closing date for submission of comments was 1 August 2016.

Holders and prospective holders of the Notes should consult their own accounting and tax advisers on the proposed tax treatment to understand the implications and consequences that may be applicable to them.

7 Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

FATCA

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose an information reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA (including by reason of being treated as in compliance with an applicable intergovernmental agreement between the United States and the jurisdiction in which the FFI operates (an "**IGA**")) and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of a Participating FFI (a "**Recalcitrant Holder**").

Withholding under FATCA in respect of "foreign passthru payments" (a term not yet defined) is expected to begin no earlier than 1 January 2017. FATCA withholding in respect of "foreign passthru payments" generally is not required for Notes that are not treated as equity for U.S. federal income tax purposes unless such obligations are issued or materially modified more than six months after the date on which the final regulations defining "foreign passthru payments" are published in the U.S. Federal Register.

The United States and a number of other jurisdictions (including the PRC and Hong Kong) have entered into, or have agreed in substance to, IGAs to facilitate the implementation of FATCA. FFIs or branches of FFIs established in a jurisdiction that has entered into an IGA generally are not expected to be required to withhold under FATCA or the relevant IGA (or any legislation implementing such IGA) from payments that they make on securities such as the Notes, but would be required to collect and report certain information in respect of its account holders and investors (other than holders of Notes that are "regularly traded on an established securities market" as defined for purposes of the relevant IGA) to the IRS or to local tax authorities as may be provided in the relevant IGA, in which case the local tax authorities generally will be obligated to share such information with the IRS.

It is not expected that FATCA will affect the amount of any payment received by Euroclear or Clearstream Luxembourg on Global Notes held within Euroclear or Clearstream Luxembourg. With respect to Notes held through a sub-custodian for the CMU Service, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold under FATCA if the sub-custodian or other nominee or custodian receiving payments on the Notes has not entered into an agreement with the IRS to report certain information about its accountholders to the IRS or is not otherwise exempt from FATCA withholding (including pursuant to the terms of any applicable IGA entered into between the United States and such entity's jurisdiction of operation).

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 Programme of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法)(the "**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 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 Programme 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 1 August 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.

The Measures and the subsequent circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the 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 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 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 "**PBOC Circular**"). The 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 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. The PBOC Circular only applies to cases where the receiving onshore enterprise is not a financial institution. On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures, 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 PBOC Circular is no longer necessary. 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. 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 3 December 2013, MOFCOM promulgated the MOFCOM RMB FDI Circular, which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the 2011 MOFCOM Notice. Pursuant to the MOFCOM RMB FDI Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Compared with the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular no longer contains the requirements for central level MOFCOM approvals for investments of RMB300 million or above, or in certain industries, such as financial guarantee, financial leasing, micro-credit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries under the state macro-regulation. Unlike the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM RMB FDI Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

On 10 January 2014, the SAFE promulgated the Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Capital Account (the "**SAFE Circular on Capital Account**"), which became effective on 10 February 2014. According to the SAFE Circular on Capital

Account, the SAFE removes or adjusts certain administrative licensing items with respect to foreign exchange administration on capital account, including but not limited to, the simplification of the foreign exchange administration on the foreign claim of finance leasing companies and the acquisition of domestic non-performing assets by foreign investors, the further liberalization regarding the administration on preliminary expense for outbound direct investment and outbound remittance by domestic enterprises, the simplification of the approval procedure regarding profit remittance by domestic enterprises and the improvement of foreign exchange administration on the foreign exchange operation permits acquired by securities companies.

There are currently no rules governing remittance of Renminbi proceeds of bond issuance by a foreign entity such as the Bank into an onshore financial institution for its own use as capital injection or for other capital account purposes and any such remittance will be subject to special government approvals on a case-by-case basis.

As the MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures are relatively new rules, they will be subject to interpretation and application by the relevant PRC authorities.

As there is currently no specific PRC regulation on the remittance of Renminbi for settlement of transactions categorised as capital account items, there is no assurance that approval of such remittances will continue to be granted or will not be revoked in the future. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or the 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 believes to be reliable, but neither the Issuer nor any Dealer or the Arrangers 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. Neither the Issuer nor any other party to the 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.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

CMU

The CMU 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.

The CMU 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 CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU 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-US 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 through an account with either Euroclear or Clearstream, Luxembourg, in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg, each have with the CMU.

Book-Entry Ownership

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream, Luxembourg.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream, Luxembourg or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

Summary of the Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 24 August 2020 (the "**Dealer Agreement**") between the Bank, Hong Kong Branch, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. 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 has agreed to reimburse the Arrangers for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to 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.

The Arrangers, the Dealers and their respective subsidiaries and 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, corporate financing, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Arrangers, the Dealers and their respective subsidiaries and affiliates may have, from time to time, performed and may in the future perform, various Banking Services or Transactions with the Issuer, or its subsidiaries and affiliates, for which they have received, or will receive, customary fees and expenses.

In the ordinary course of their various business activities, the Arrangers, the Dealers and their respective subsidiaries and affiliates may 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 such investment and securities activities may involve securities and/or instruments of the Issuer and its subsidiaries or affiliates. Certain of the Arrangers, the Dealers and their respective subsidiaries and affiliates may from time to time also enter into swap and other derivative transactions with the Issuer and its subsidiaries or affiliates. The Arrangers, the Dealers and their respective subsidiaries and affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with each Tranche of Notes issued under the Programme, the Arrangers, the Dealers or certain of their subsidiaries or affiliates, or the Issuer and its subsidiaries and affiliates, may act as investors and place orders, purchase and receive allocations and may trade the Notes for their own account and such orders, purchases, allocations or trade 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 of the relevant Tranche of Notes. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the Arrangers, the Dealers and/or their respective subsidiaries, or to the Issuer and its subsidiaries and affiliates, 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 applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

The Arrangers, the Dealers or any of their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Selling Restrictions

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

If a jurisdiction requires that an offering of Notes be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by that Dealers or its affiliate on behalf of the Issuer in such jurisdiction.

United States

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 to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has offered and sold, and shall offer and sell, the Notes of any identifiable tranche (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Issuer and each relevant Dealer, by the Fiscal Agent or, in the case of Syndicated Issue, the Lead Manager, only in accordance with Rule 903 of Regulation S. 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, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other relevant Dealers of the end of the distribution compliance period. Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation Sunder the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act."

Terms used in the above paragraph have the meanings given to them by Regulation S.

Bearer Notes having a maturity of more than one year 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. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the "**Code**").

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer that is not participating in the offering of such Notes may violate the registration requirements of the Securities Act.

Unless the Pricing Supplement or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

(i) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**D Rules**"):

   (a) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

   (b) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6); and

(iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii).

Terms used in this paragraph have the meanings given to them by the Code, including the D Rules.

To the extent that the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**C Rules**"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Code, including the "C Rules".

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area – Prohibition of Sales to EEA and UK Retail Investors

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, 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 the Offering Circular as completed by the applicable Pricing Supplement in relation thereto to any retail investor in the EEA or in the United Kingdom.

For the purposes of this provision:

(i) the expression "**retail investor**" means a person who is one (or more) of the following:

  (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (b) 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

  (c) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"); and

(ii) the expression "**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 the Notes.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) 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 (b) 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 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;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(i) 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 (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) 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) ("C(WUMP)O") of Hong Kong or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) 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, in each case 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 of 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 the SFO.

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, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant 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 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:

(i) 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

(ii) 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 interest (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:

(i) 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;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded 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).*

PRC

Each Dealer has represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

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 "**Financial Instruments and Exchange Act**"). Accordingly, 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, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws and regulations of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Australian Corporations Act**") in relation to the Notes has been, or will be, lodged with the Australian Securities and Investments Commission ("**ASIC**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, unless the relevant Pricing Supplement (or a relevant supplement to this Offering Circular) otherwise provides, it:

(i) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and

(ii) has not distributed or published, and will not distribute or publish, any offering circular or any other offering material or advertisement relating to the Notes in Australia, unless:

(a) the aggregate consideration payable by each offeree is at least A$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;

(b) the offer or invitation does not constitute an offer to a "retail client" for the purposes of section 761G and 761GA of the Australian Corporations Act;

(c) such action complies with any applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Australian Corporations Act) in Australia; and

(d) such action does not require any document to be lodged with ASIC.

New Zealand

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered for issue or sale to any person in New Zealand and no offering document or advertisement may be published or distributed in New Zealand, except to wholesale investors within the meaning of, and in compliance with, the Financial Markets Conduct Act 2013 of New Zealand.

GENERAL INFORMATION

1. **Clearing Systems**: The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes 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 set out in the relevant Pricing Supplement.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Listing**: Application may made to the HKSE for permission to deal in, and for listing of, any Notes, issued by way of debt issues to Professional Investors only, which are agreed at the time of issue to be so listed on the HKSE. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. There can be no assurance that the application will be approved. Unlisted Notes may also be issued.

3. **NDRC Reporting**: The Notes will be issued in accordance with either (i) the requirements under the NDRC Circular or (ii) an annual foreign debt issuance quota letter issued by the NDRC to the Bank pursuant to the NDRC Circular 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.

4. **PBOC Reporting**: With respect to any applicable Tranche of the Notes, reporting will be completed by the Bank in accordance with the 2017 PBOC Circular.

5. **Litigation**: None of the Issuer nor any of its subsidiaries is involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.

6. **Authorisations**: The relevant Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment and the update of the Programme have been duly authorised by the Bank on 18 June 2014. The relevant Issuer has obtained and has agreed to obtain from time to time all necessary consents, approvals and authorisations for the issue of Notes under the Programme.

7. **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2019 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2019.

8. **Available Documents**: For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection upon prior written request and satisfactory proof of holding at the offices of the Issuer and/or the Fiscal Agent:

   (a) the Memorandum and Articles of Association of the Bank;

   (b) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2017, 2018 and 2019 (in each case together with the audit reports in connection therewith);

   (c) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;

   (d) the Fiscal Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Deed of Covenant;

   (e) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular;

   (f) a copy of the subscription agreement for Notes issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require;

   (g) each Pricing Supplement (save that Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity).

9. **Auditors**: The 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 Bank's independent auditor, as stated in their report appearing herein.

10. **Legal Entity Identifier:** The legal entity identifier of the Bank is 549300E7TSGLCOVSY746.

11. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "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".

12. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

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Notes:

The audited consolidated financial statements of the Bank set out herein are reproduced from the Bank's annual reports for the years ended 31 December 2018 and 2019. Pages and references included in the audited consolidated financial statements as of and for the year's ended 31 December 2018 and 2019 set out herein refer to pages set out in the relevant annual report.

pwc

羅兵咸永道

To the Shareholders of Agricultural Bank of China Limited
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 158 to 317, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of 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 International Standards on Auditing ("ISAs"). 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 International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethis Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 summarized as follows:

- Measurement of expected credit losses for loans and advances to customers
- Consolidation of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers	
Refer to Note II 8.5, Note III 1, Note IV 8, Note IV 17 and Note IV 44.1 to the consolidated financial statements. As at 31 December 2019, the carrying amount of Group's loans and advances to customers was RMB12,819.61 billion, of which RMB12,279.22 billion were measured at amortized cost and RMB540.39 billion were measured at fair value through other comprehensive income. A loss allowance of RMB540.58 billion was recognized for loans and advances to customers measured at amortized cost and a loss allowance of RMB12.54 billion was recognized for loans and advances to customers measured at fair value through other comprehensive income in the Group's consolidated statement of financial position. The credit impairment losses on loans and advances to customers recognized in the Group's consolidated income statement for the year ended 31 December 2019 amounted to RMB131.83 billion. The loss allowances for loans and advances to customers represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses ("ECL") models. The Group assessed whether the credit risk of loans and advances to customers had increased significantly since their initial recognition, and applied a three-stage impairment approach to calculate their ECL. For corporate loans and advances classified into stages I and II and for all personal loans, management assessed ECL using the risk parameter modelling approach that incorporated key parameters (including probability of default, loss given default, exposure at default, etc.). For corporate loans and advances in stage III, management assessed ECL by estimating the future cash flows from the loans.	We evaluated and tested the design and operating effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, primarily including: (1) Internal controls over ECL models, including the selection, approval and application of modelling methodology; and ongoing monitoring and optimization of the models; (2) Review and approval of significant management judgements and assumptions, including portfolio segmentation, model selections, key parameters estimation, determination of significant increase in credit risk, identification of default and credit-impaired assets and forward-looking measurement; (3) Internal controls over the accuracy and completeness of data 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 in stage III; (5) Internal controls over the information systems for ECL measurement; (6) Review and approval of the measurement result of expected credit losses for loans and advances to customers. We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the significant judgements and assumptions involved, including portfolio segmentation, models selections, key parameters estimation (including probability of default, loss given default, exposure at default etc.) and so on. We examined the ECL calculation engines on a sample basis, to validate whether or not the ECL calculation engines reflect the management's modelling methodologies.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers (Continued)	
The measurement of ECL for loans and advances to customers involves significant management judgments and assumptions, primarily including: (1) Segmentation of portfolio based on credit risk characteristics, selection of appropriate models and determination of relevant key parameters; (2) Determination of whether or not there was a significant increase in credit risk, default or credit-impaired; (3) Inputs and assumptions used to estimate the impact of forward looking information and multiple economic scenarios; (4) Estimation of future cash flows for corporate loans and advances in stage III. The Group established internal controls for the measurement of ECL. Measurement of ECL for loans and advances to customers involved complex models and significant management judgements over parameters and data inputs, and hence was identified as a key audit matter.	We performed substantive testing over a sample of loans and advances to customers, and considered financial and non-financial information, relevant external evidence and other factors of the borrowers, to assess the appropriateness of management's identification of significant increase in credit risk, defaults and credit-impaired loans. For forward-looking measurement, we reviewed management's analysis of their selection of economic indicators, economic scenarios and weightings assigned. We assessed the reasonableness of the parameters and inputs used in the forward looking and multiple economic scenarios models. We performed sensitivity analysis of the economic indicators, economic scenarios and weightings assigned. For corporate loans and advances in stage III, 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. We examined critical data elements to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also tested the interfaces of the major data transfer between the ECL calculation engines and relevant information systems, to verify their accuracy and completeness. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, the models, key parameters, significant judgement 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	
Refer to Note II 2, Note III 5 and Note IV 41 to the consolidated financial statements. Structured entities primarily included Wealth Management Products ("WMPs"), securitization products, funds, trust investment plans and asset management plans issued, managed and/or invested by the Group. As at 31 December 2019, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB464.48 billion and RMB73.52 billion, respectively. In addition, as at 31 December 2019, total assets of non-principal guaranteed WMPs, funds and asset management plans sponsored and managed by the Group which were not consolidated and not included in the consolidated statement of financial position amounted to RMB1,960.70 billion and RMB478.34 billion, respectively. Management had determined whether the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key area of audit focus.	We evaluated and tested the design and operating effectiveness of the Group's relevant controls over consolidation assessment of structured entities, including approval of transaction structure, review and approval of contractual terms, variable return computations, and consolidation assessment results. We selected samples of structured entities and assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities. We 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 by the Group as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. We also assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the sampled structured entities, the remuneration to which the Group was entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities. Based on the procedures performed, we found management's consolidation judgment of these structured entities 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Leung Wai Kin.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2020

Consolidated Income Statement

For the year ended 31 December 2019
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2019	2018
Interest income	1	**859,141**	784,724
Interest expense	1	**(372,270)**	(306,964)
Net interest income	1	**486,871**	477,760
Fee and commission income	2	**103,011**	91,525
Fee and commission expense	2	**(16,085)**	(13,384)
Net fee and commission income	2	**86,926**	78,141
Net trading gain	3	**19,067**	16,069
Net gain on financial investments	4	**5,793**	8,460
Net gain on derecognition of financial assets measured at amortized cost		**–**	30
Other operating income	5	**30,693**	22,097
Operating income		**629,350**	602,557
Operating expenses	6	**(224,096)**	(213,963)
Credit impairment losses	8	**(138,605)**	(136,647)
Impairment losses on other assets		**(118)**	(251)
Operating profit		**266,531**	251,696
Share of result of associates and joint ventures	20	**45**	(22)
Profit before tax		**266,576**	251,674
Income tax expense	9	**(53,652)**	(49,043)
Profit for the year		**212,924**	202,631
Attributable to:			
Equity holders of the Bank		**212,098**	202,783
Non-controlling interests		**826**	(152)
		212,924	202,631
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share)			
— Basic and diluted	11	**0.59**	0.59

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2019	2018
Profit for the year	**212,924**	202,631
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on financial assets at fair value through other comprehensive income	**9,239**	35,360
Loss allowance on financial assets at fair value through other comprehensive income	**5,637**	3,243
Income tax impact for fair value changes and loss allowance on financial assets at fair value through other comprehensive income	**(4,206)**	(9,290)
Foreign currency translation differences	**746**	1,505
Subtotal	**11,416**	30,818
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes on other equity investments designated at fair value through other comprehensive income	**383**	196
Income tax impact for fair value changes on other equity investments designated at fair value through other comprehensive income	**(98)**	(47)
Subtotal	**285**	149
Other comprehensive income, net of tax	**11,701**	30,967
Total comprehensive income for the year	**224,625**	233,598
Total comprehensive income attributable to:		
Equity holders of the Bank	**223,536**	233,079
Non-controlling interests	**1,089**	519
	224,625	233,598

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

Consolidated Statement of Financial Position

As at 31 December 2019
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2019	2018
Assets			
Cash and balances with central banks	12	**2,699,895**	2,805,107
Deposits with banks and other financial institutions	13	**235,742**	109,728
Precious metals		**30,063**	21,268
Placements with and loans to banks and other financial institutions	14	**523,183**	552,013
Derivative financial assets	15	**24,944**	36,944
Financial assets held under resale agreements	16	**708,551**	371,001
Loans and advances to customers	17	**12,819,610**	11,461,542
Financial investments	18		
Financial assets at fair value through profit or loss		**801,361**	643,245
Debt instrument investments at amortized cost		**4,946,741**	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,674,828**	1,738,132
Investment in associates and joint ventures	20	**6,672**	4,005
Property and equipment	21	**152,484**	152,452
Goodwill		**1,381**	1,381
Deferred tax assets	22	**120,952**	113,293
Other assets	23	**131,881**	95,662
Total assets		**24,878,288**	22,609,471
Liabilities			
Borrowings from central banks	24	**608,536**	561,195
Deposits from banks and other financial institutions	25	**1,503,909**	1,124,322
Placements from banks and other financial institutions	26	**325,363**	325,541
Financial liabilities at fair value through profit or loss	27	**330,627**	286,303
Derivative financial liabilities	15	**29,548**	34,554
Financial assets sold under repurchase agreements	28	**53,197**	157,101
Due to customers	29	**18,542,861**	17,346,290
Debt securities issued	30	**1,108,212**	780,673
Deferred tax liabilities	22	**520**	139
Other liabilities	31	**415,753**	318,566
Total liabilities		**22,918,526**	20,934,684

Consolidated Statement of Financial Position (Continued)

As at 31 December 2019
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2019	2018
Equity			
Ordinary shares	32	**349,983**	349,983
Other equity instruments	33	**199,886**	79,899
Preference shares		**79,899**	79,899
Perpetual bonds		**119,987**	–
Capital reserve	34	**173,556**	173,556
Investment revaluation reserve	35	**29,684**	18,992
Surplus reserve	36	**174,910**	154,257
General reserve	37	**277,016**	239,190
Retained earnings		**741,101**	652,944
Foreign currency translation reserve		**2,219**	1,473
Equity attributable to equity holders of the Bank		**1,948,355**	1,670,294
Non-controlling interests		**11,407**	4,493
Total equity		**1,959,762**	1,674,787
Total equity and liabilities		**24,878,288**	22,609,471

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

Approved and authorized for issue by the Board of Directors on 30 March 2020.

Chairman

Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes IV	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 31 December 2018		349,983	79,899	173,556	18,992	154,257	239,190	652,944	1,473	1,670,294	4,493	1,674,787
Profit for the year		–	–	–	–	–	–	212,098	–	212,098	826	212,924
Other comprehensive income		–	–	–	10,692	–	–	–	746	11,438	263	11,701
Total comprehensive income for the year		–	–	–	10,692	–	–	212,098	746	223,536	1,089	224,625
Capital contribution from equity holders	33	–	119,987	–	–	–	–	–	–	119,987	5,825	125,812
Appropriation to surplus reserve	36	–	–	–	–	20,653	–	(20,653)	–	–	–	–
Appropriation to general reserve	37	–	–	–	–	–	37,826	(37,826)	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	(60,862)	–	(60,862)	–	(60,862)
Dividends paid to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)	–	(4,600)
As at 31 December 2019		349,983	199,886	173,556	29,684	174,910	277,016	741,101	2,219	1,948,355	11,407	1,959,762
As at 31 December 2017		324,794	79,899	98,773	(19,690)	134,348	230,750	577,573	(32)	1,426,415	2,982	1,429,397
Change in accounting policy		–	–	–	9,891	–	(95)	(36,457)	–	(26,661)	244	(26,417)
As at 1 January 2018		324,794	79,899	98,773	(9,799)	134,348	230,655	541,116	(32)	1,399,754	3,226	1,402,980
Profit for the year		–	–	–	–	–	–	202,783	–	202,783	(152)	202,631
Other comprehensive income		–	–	–	28,791	–	–	–	1,505	30,296	671	30,967
Total comprehensive income for the year		–	–	–	28,791	–	–	202,783	1,505	233,079	519	233,598
Capital contribution from equity holders	32	25,189	–	74,783	–	–	–	–	–	99,972	749	100,721
Appropriation to surplus reserve	36	–	–	–	–	19,909	–	(19,909)	–	–	–	–
Appropriation to general reserve	37	–	–	–	–	–	8,535	(8,535)	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	(57,911)	–	(57,911)	–	(57,911)
Dividends paid to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)	–	(4,600)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(1)	(1)
As at 31 December 2018		349,983	79,899	173,556	18,992	154,257	239,190	652,944	1,473	1,670,294	4,493	1,674,787

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

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
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**266,576**	251,674
Adjustments for:		
Amortization of intangible assets and other assets	**1,934**	2,309
Depreciation of property, equipment and right-of-use assets	**16,777**	14,104
Credit impairment losses	**138,605**	136,647
Impairment losses on other assets	**118**	251
Interest income arising from investment securities	**(232,571)**	(216,118)
Interest expense on debt securities issued	**31,375**	23,094
Revaluation gain on financial instruments at fair value through profit or loss	**(9,641)**	(5,120)
Net gain on investment securities	**(494)**	(351)
Share of result of associates and joint ventures	**(45)**	22
Net gain on disposal of property, equipment and other assets	**(1,217)**	(1,068)
Net foreign exchange gain	**(8,135)**	(6,733)
	203,282	198,711
Net change in operating assets and operating liabilities:		
Net decrease in balances with central banks, deposits with banks and other financial institutions	**173,726**	266,843
Net increase in placements with and loans to banks and other financial institutions	**(42,279)**	(75,015)
Net decrease in financial assets held under resale agreements	**15,474**	23,004
Net increase in loans and advances to customers	**(1,442,873)**	(1,238,775)
Net increase in borrowings from central banks	**49,587**	86,098
Net (decrease)/increase in placements from banks and other financial institutions	**(98)**	43,764
Net increase in due to customers and deposits from banks and other financial institutions	**1,551,818**	1,093,590
(Increase)/Decrease in other operating assets	**(148,837)**	3,365
Increase/(Decrease) in other operating liabilities	**46,446**	(247,938)
Cash from operations	**406,246**	153,647
Income tax paid	**(53,675)**	(47,720)
NET CASH FROM OPERATING ACTIVITIES	**352,571**	105,927

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		**1,731,574**	1,868,019
Cash received from interest income arising from investment securities		**223,034**	199,604
Cash received from disposal of property, equipment and other assets		**1,178**	5,605
Cash paid for purchase of investment securities		**(2,169,824)**	(2,491,466)
Increase in investment in associates and joint ventures		**(2,657)**	(3,801)
Cash paid for purchase of property, equipment and other assets		**(14,110)**	(17,048)
NET CASH USED IN INVESTING ACTIVITIES		**(230,805)**	(439,087)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from issues of shares		**–**	100,007
Cash payments for transaction cost of shares issued		**–**	(36)
Contribution from issues of other equity instruments		**120,000**	–
Cash payments for transaction cost of other equity instruments issued		**(13)**	–
Cash received from debt securities issued		**1,465,652**	1,310,162
Repayments of debt securities issued		**(1,141,046)**	(1,021,557)
Cash payments for interest on debt securities issued		**(28,441)**	(21,844)
Cash payments for transaction cost of debt securities issued		**(63)**	(96)
Cash payments for principal portion and interest portion of lease liability		**(4,687)**	N/A
Capital contribution from non-controlling interests		**5,825**	749
Dividends paid to ordinary shareholders		**(60,862)**	(57,911)
Dividends paid to preference shareholders		**(4,600)**	(4,600)
Dividends paid to non-controlling interests		**–**	(1)
NET CASH FROM FINANCING ACTIVITIES		**351,765**	304,873
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**473,531**	(28,287)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**978,441**	1,001,246
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**2,609**	5,482
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	38	**1,454,581**	978,441
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**582,522**	515,982
Interest paid		**(318,125)**	(286,484)

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

I GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking and Insurance Regulatory Commission (the former "China Banking and Regulatory Commission, CBRC" and "China Insurance Regulatory Commission, CIRC", the "CBIRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as the "Domestic Operations". Branches and subsidiaries registered and operating outside of the Mainland China are referred to as the "Overseas Operations".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622) for this financial year and the comparative period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

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

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.1 Other amendments to the accounting standards effective in 2019 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2019.

(1)	IFRS 16	Leases
(2)	IFRIC 23	Uncertainty over Income Tax Treatments
(3)	Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
(4)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015–2017 Cycle
(5)	Amendments to IAS 19	Employee Benefits' Regarding Plan Amendment, Curtailment or Settlement
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

(1) IFRS 16: Leases

The Group has adopted IFRS 16 as issued by the IASB with the transition date of 1 January 2019. As permitted under the specific transitional provisions in the standard, the Group did not restated comparative figures. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

The specific accounting policies affected by the new leasing rules are as follows:

The implementation of the new leasing rules mainly affects the Group as the lessee.

According to the requirements of IFRS 16, the Group recognized the right-of-use assets at the commencement date, and recognized the lease liabilities at the present value of the outstanding lease payments. The Group's right-of-use assets mainly include operation buildings. The right-of-use assets are measured at costs comprising the following: the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date, any initial direct costs, restoration costs and less any lease incentives received. If the Group could reasonably determine the ownership of the leased asset when the lease term expires, the right-of-use assets are depreciated over the asset's remaining useful life. Otherwise, the right-of-use assets are depreciated over the shorter period of the asset's useful life and the lease term on a straight-line basis. When the recoverable costs of right-of-use assets are lower than the carrying amount, the value of right-of-use assets will be decreased down to the recoverable costs.

Short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Leases of low value assets are the underlying assets are of low value when new.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.1 Other amendments to the accounting standards effective in 2019 relevant to and adopted by the Group (Continued)

(1) IFRS 16: Leases (Continued)

The impact of the Group's implementation of the new lease rules are as follows:

The Group has recognized the lease liabilities in relation to leases which had previously be classified as 'operating leases' under the principles of IAS 17 leases as of 31 December 2018. The lease liabilities were measured at the present value of the remaining lease payment discounted by the lessee's incremental borrowing rate on the date of initial application, and the amount of the practical expedients, contracts reassessed as lease contracts and adjustments as a result of a different treatment of extension and termination options was taken into account during the process of calculation. The difference between the lease liabilities recognized on 1 January 2019 and the remaining lease payments of non-cancellable operating lease commitments on 31 December 2018 is RMB178 million. The incremental borrowing rate applied to the lease liabilities recognized under each non-cancellable operating lease commitment was based on upon the yield-to-maturity of bonds with the similar maturities issued by each lessee in the Group, comprehensively considering the remaining lease term, lease business scale and guarantee conditions. The right-of-use assets were measured at the amount equal to lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. In addition, in applying new leasing rules for the first time, the Group has used the practical expedients permitted by the standard, mainly including the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, not recognizing lease liabilities and right-of-use assets for short-term leases and low-value leases.

On 1 January 2019, the Group recognized the right-of-use assets amounted RMB11,095 million and lease liabilities amounted RMB10,428 million. The implementation of IFRS 16 does not have any impact on net asset of the Group as at 1 January 2019.

(2) 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 did not have a significant impact on the Group's consolidated financial statements.

(3) Amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities

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

(4) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015–2017 Cycle

The Annual Improvements to IFRSs 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 did not have a significant impact on the Group's consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.1 *Other amendments to the accounting standards effective in 2019 relevant to and adopted by the Group (Continued)*

(5) 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 did not have a significant impact on the Group's consolidated financial statements.

(6) 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 companies 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 did not have a significant impact on the Group's consolidated financial statements.

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2019*

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(2)	Amendments to IFRS 3	The Definition of A Business	1 January 2020
(3)	Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	1 January 2020
(4)	IFRS 17	Insurance Contracts	1 January 2021 (likely to be extended to 1 January 2023)
(5)	Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
(6)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2019 (Continued)

(1) Amendments to IAS 1 and IAS 8: The Definition of Material

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(3) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform

The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain reliefs in connection with interest rate benchmark reform. The amendments apply to all hedging relationships that are directly affected by interbank offered rates ("IBOR") reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(4) IFRS 17: Insurance Contracts

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

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

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2019* (Continued)

(4) IFRS 17: Insurance Contracts (Continued)

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

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

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

The standard is currently mandatorily effective for annual periods beginning on or after 1 January 2021. However, the IASB decided to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023 on 17 March 2020, and expects to issue the amendments to IFRS 17 in the second quarter of 2020.

(5) Amendments to IAS 1: Classification of Liabilities as Current or Non-current

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 night. 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.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basic of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2019 (Continued)

(6) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

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

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

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2 Consolidation

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, 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.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

All intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

***Business combinations** (Continued)*

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 — Income Taxes and IAS 19 — Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisition of associates is included in investment in associates.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Investment in associate and joint venture

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

Investment in associate and joint venture *(Continued)*

The post-acquisition profit or loss of an associate or a joint venture is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of loss of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate or a joint venture; when that is the case, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 — Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate or joint venture, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate or joint venture that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3 Interest income and expenses

Interest income and expenses of financial instruments are calculated using the effective interest method and included in the current profit and loss.

The Group uses the effective interest method to calculate the interest income and expenses of financial assets and liabilities measured at amortized cost, presented as "interest income" and "interest expenses" respectively. For specific accounting policies, please refer to the Note II 8.4 subsequent measurement of financial instruments.

4 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.

For the performance obligations satisfied at a point in time, the Group recognizes revenue when control is passed to the customer at a certain point in time, including insurance agency fee, merchant acquiring service fee, settlement & clearing services and bond underwriting fee, etc. For the performance obligations satisfied over time, the Group recognizes revenue according to the progress toward satisfaction of the obligation over the time, including consultancy and advisory fee and custodial fee, etc.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Foreign currency transactions

The functional currency of the Domestic Operations is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise, except for the following:

(i) exchange differences arising on a monetary item that forms part of the Bank's net investment in the Overseas Operations;

(ii) changes in the fair value of monetary assets denominated in foreign currency classified as financial investments at fair value through comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's Overseas Operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their 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. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the foreign currency translation reserve and non-controlling interests, as appropriate. The accumulated foreign currency translation reserve related to the Overseas Operations will be reclassified from equity to the consolidated income statement on disposal of all or part of the Overseas Operations.

6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation (Continued)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that the temporary difference will not reverse in the foreseeable future or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Value-added Taxes ("VAT")

The Group's interest income, fee and commission income, trading gain on financial products and insurance premium income are presented net of their respective VAT in the consolidated financial statements.

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at 3% for taxable asset management activities undertaken after 1 January 2018.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period in which the related payment obligation is incurred.

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits as determined in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

8 Financial instruments

8.1 Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

(1) Financial assets

Financial assets are classified in the following measurement categories based on the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) Amortized cost ("AC");

(ii) Fair value through other comprehensive income ("FVOCI"); or

(iii) Fair value through profit or loss ("FVPL").

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and measurement of debt instruments depend on the Group's business models for managing the asset and the cash flow characteristics of the asset.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

(1) Financial assets (Continued)

Debt Instruments (Continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

(i) AC: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortized cost.

(ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI.

(iii) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

(2) Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortized 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 entity's key management personnel.

(iii) The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Initial recognition, classification and measurement of financial instruments (Continued)

(2) Financial liabilities (Continued)

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expenses incurred on the financial liability.

8.2 Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

8.3 Determination of fair value

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.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

8.4 Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

(1) Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any loss allowance.

Interest income and interest expenses from these financial assets is included in "Interest income" and "interest expenses" using the effective interest rate method.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.4 *Subsequent measurement of financial instruments (Continued)*

(1) *Amortized cost (Continued)*

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. 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, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for:

(i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and

(ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

(2) *Fair value through other comprehensive income*

Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Equity instruments

The equity instrument investments that are not held for trading are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established.

(3) *Financial assets at fair value through profit or loss*

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net trading gain" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in "Net gain/on financial investments".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.4 Subsequent measurement of financial instruments (Continued)

(3) Financial assets at fair value through profit or loss (Continued)

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Net trading gain" in the consolidated income statement.

(4) Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL are measured at fair value with all gains or losses recognized 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:

(i) changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognized in other comprehensive income; and

(ii) other changes in fair value of such financial liabilities are recognized in profit or loss of the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group recognizes all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss of the current period.

When the liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings.

8.5 Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and exposures arising from some loan commitments and financial guarantee contracts.

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, which are 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 reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) 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.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.5 Impairment of financial instruments (Continued)

For financial instruments whose impairment losses are measured using the ECL models, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

— Stage I: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage I.

— Stage II: If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is moved to Stage II. The description of how the Group determines when a significant increase in credit risk has occurred is disclosed in Note IV 44.1.

— Stage III: If the financial instrument is credit-impaired, the financial instrument is then moved to Stage III. The definition of credit-impaired financial assets is disclosed in Note IV 44.1.

Financial instruments in Stage I have their ECL measured at an amount equivalent to the ECL of the financial asset for the next 12 months ("12m ECL"). Financial instruments in Stage II or Stage III have their ECL measured at an amount equivalent to the ECL over the lifetime of the financial instruments ("Lifetime ECL"). The description of inputs, assumptions and estimation techniques used in measuring the ECL is disclosed in Note IV 44.1.

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses 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-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI financial assets, at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

8.6 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 the new terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes 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 recognized 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 recognized in profit or loss as a gain or loss on derecognition.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.6 Modification of loans (Continued)

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 recognizes 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).

8.7 Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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 recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

8.8 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its 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 instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

8.9 Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.9 *Derivative financial instruments (Continued)*

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:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) 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 recognized in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

8.10 *Offsetting financial assets and financial liabilities*

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

8.11 *Repurchase agreements and agreements to resell*

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as held-to-maturity investments, available-for-sale financial assets or debt instruments classified as receivables as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related collateral accepted is not recognized in the consolidated financial statements (Note IV 42 Contingent Liabilities and Commitments — Collateral).

The difference between the purchase and sale price is recognized as interest expense or income in the consolidated income statement over the term of the agreements using the effective interest method.

9 Insurance contracts

Insurance contract classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to the reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9 Insurance contracts (Continued)

Insurance contract classification *(Continued)*

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

Insurance income recognition

Insurance premium income is recognised when the following conditions are met: the insurance contract is issued and related insurance risk is undertaken by the Group, the related economic benefits are likely to flow to the Group, and the related income can be reliably measured.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities will be recorded if any deficiency exists.

10 Precious metals

Precious metals comprise gold, silver and other precious metals.

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

11 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. 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 and equipment.

Subsequent expenditure incurred for the property and equipment (other than construction in progress) is included in the cost of the property and equipment (other than construction in progress) if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured, and the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation is recognized as a component of operating expenses in the consolidated income statement so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11 Property and equipment (Continued)

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	5–50 years	3%	1.94%–19.40%
Electronic equipment, furniture and fixtures	3–11 years	3%	8.82%–32.33%
Motor vehicles	5–8 years	3%	12.13%–19.40%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income or operating expenses in the consolidated income statement. The accounting policies of impairment of property and equipment are included in Note II 19 Impairment of Tangible and Intangible Assets other than Goodwill.

12 Land use rights

Land use rights are classified in other assets and amortized over a straight-line basis over their authorized useful lives.

13 Foreclosed assets

Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated income statement in the period in which the item is disposed.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

14 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditure incurred for the investment property is included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14 Investment property (Continued)

The accounting policies of impairment of investment property are included in Note II 19 Impairment of Tangible and Intangible Assets other than Goodwill.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement.

15 Leasing — Accounting policies applied from 1 January 2019

Lease is a contract or part of a contract that conveys the right to use an asset for a period of time in exchange for consideration.

The Group as lessee

The Group recognized the right-of-use assets at the commencement date, and recognized the lease liabilities at the present value of the outstanding lease payments. Lease payments include fixed payments, the amounts expected to be payable by the group if the group is reasonably certain to exercises a purchase option or a option to terminate the lease. Variable lease payments that are based on an index or a rate are recognized as an expense in profit or loss when incurred.

The Group's right-of-use assets mainly include rented houses and buildings. The right-of-use assets are measured at costs, which include the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date, any initial direct costs and less any lease incentives received. If the Group could reasonably determine the ownership of the leased asset when the lease term expires, the right-of-use assets are depreciated over the asset's remaining useful life. Otherwise, the right-of-use assets are depreciated over the shorter period of the asset's useful life and the lease term on a straight-line basis. When the recoverable costs of right-of-use assets are lower than the carrying amount, the value of right-of-use assets will be decreased down to the recoverable costs.

Short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Leases of low value assets are the underlying assets are of low value when new.

The Group as lessor

When the Group is the lessor in a finance lease, a finance lease receivable as an amount equal to the net lease investment is recognized and the finance lease asset is derecognized at the commencement date. The finance lease receivables are recorded in the consolidated statement of financial position as Loans and advances to customers.

When the Group is the lessor in an operating lease, rental income from operating leases is recognized as other operating income in the consolidated income statement on a straight-line basis over the term of the related lease. The initial direct costs are included in the carrying amount of the underlying assets and is recognized as expenses over the lease term on the same basis as the lease income.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16 Leasing — Accounting policies applied prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

When the Group is a lessee under finance leases, the leased assets are capitalized under property and equipment initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated income statement. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

When the Group is the lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated income statement on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

The Group as lessor

When the Group is the lessor in a finance lease, an amount representing the minimum lease payment receivables and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment") is recorded in the consolidated statement of financial position as Loans and advances to customers. The difference between the net lease investment and the undiscounted amount is recorded as unearned finance income, amortizing over the term of the lease using the effective interest method and recognized in the consolidated income statement.

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as other operating income in the consolidated income statement on a straight-line basis over the term of the related lease.

17 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

18 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 20 years.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

20 Dividend distribution

Dividend distribution to the Bank's ordinary equity holders is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the ordinary equity holders in the annual general meeting of the Bank.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

21 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

22 Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

23 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 recognized 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 amortization of guarantee fees, and the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

The impairment allowance of loan commitments provided by the Group is measured using ECL models. 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 recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized, but disclosed, unless the possibility of an outflow of resources embodying economic benefits is probable. The Group's contingent liabilities are disclosed in Note IV 42 Contingent Liabilities and Commitments.

A provision is recognized when it meets the criteria as set forth in Note II 21 Provisions.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note II, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods as appropriate.

The following are the critical judgments and key estimates management has made in the process of applying the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (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 IV 44.1 Credit risk.

2 Classification of financial assets

The critical judgments the Group has made 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 how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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; whether interests only included time value of money, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, whether 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.

3 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

4 Taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

5 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

6 Derecognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements, securities lending. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial derecognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes 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 derecognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the derecognition 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 qualifies 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. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that affect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets by assessing whether the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognizes these financial assets and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognize these financial assets to the extent of its continuing involvement in the financial asset.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 NET INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income		
Loans and advances to customers	**565,465**	502,616
Including: Corporate loans and advances	**326,409**	303,054
Personal loans and advances	**227,251**	191,775
Discounted bills	**11,805**	7,787
Financial investments		
Debt instrument investments at amortized cost	**172,710**	157,909
Other debt instrument at fair value through other comprehensive income	**59,861**	58,209
Balances with central banks	**35,024**	40,701
Placements with and loans to banks and other financial institutions	**13,585**	14,442
Financial assets held under resale agreements	**8,947**	9,025
Deposits with banks and other financial institutions	**3,549**	1,822
Subtotal	**859,141**	784,724
Interest expense		
Due to customers	**(279,737)**	(227,819)
Deposits from banks and other financial institutions	**(33,728)**	(28,303)
Debt securities issued	**(31,375)**	(23,094)
Borrowings from central banks	**(16,164)**	(15,823)
Placements from banks and other financial institutions	**(9,441)**	(8,888)
Financial assets sold under repurchase agreements	**(1,825)**	(3,037)
Subtotal	**(372,270)**	(306,964)
Net interest income	**486,871**	477,760

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
Fee and commission income		
Bank cards	**30,181**	25,586
Electronic banking services	**25,209**	19,640
Agency services	**19,801**	20,929
Settlement and clearing services	**11,443**	10,680
Consultancy and advisory services	**10,109**	8,876
Custodian and other fiduciary	**3,899**	3,598
Credit commitment	**1,895**	1,782
Others	**474**	434
Subtotal	**103,011**	91,525
Fee and commission expense		
Bank cards	**(9,543)**	(7,323)
Electronic banking services	**(3,992)**	(3,193)
Settlement and clearing services	**(1,770)**	(2,004)
Others	**(780)**	(864)
Subtotal	**(16,085)**	(13,384)
Net fee and commission income	**86,926**	78,141

3 NET TRADING GAIN

		Year ended 31 December	
		2019	2018
Net gain on debt instruments held for trading		**11,095**	14,253
Net gain on precious metals	(i)	**4,304**	2,666
Net (loss)/gain on foreign exchange rate derivatives		**(571)**	1,487
Net (loss)/gain on interest rate derivatives		**(1,421)**	516
Others		**5,660**	(2,853)
Total		**19,067**	16,069

(i) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

4 NET GAIN ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2019	2018
Net gain on debt securities at FVPL	**5,274**	2,179
Net gain on debt instruments measured at FVOCI	**471**	304
Net gain on underlying assets and liabilities related to principal guaranteed wealth management products designated as at FVPL	**36**	5,984
Others	**12**	(7)
Total	**5,793**	8,460

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 OTHER OPERATING INCOME

	Year ended 31 December 2019	2018
Insurance premium	**22,938**	17,365
Net gain/(loss) on foreign exchange	**2,804**	(726)
Gain on disposal of property and equipment	**1,017**	1,104
Rental income	**863**	785
Government grant	**824**	1,018
Others	**2,247**	2,551
Total	**30,693**	22,097

6 OPERATING EXPENSES

		Year ended 31 December 2019	2018
Staff costs	(1)	**124,267**	123,614
General operating and administrative expenses	(2)	**48,246**	47,173
Insurance benefits and claims		**23,349**	17,652
Depreciation and amortization		**18,711**	16,413
Tax and surcharges	(3)	**5,688**	5,330
Others		**3,835**	3,781
Total		**224,096**	213,963

(1) Staff costs

	Year ended 31 December 2019	2018
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	**79,835**	75,976
Housing funds	**8,524**	8,328
Social insurance	**5,450**	5,371
Including: Medical insurance	**4,902**	4,829
Maternity insurance	**407**	381
Employment injury insurance	**141**	161
Labor union fees and staff education expenses	**3,534**	3,365
Others	**9,464**	12,469
Subtotal	**106,807**	105,509
Defined contribution benefits	**17,399**	17,848
Early retirement benefits	**61**	257
Total	**124,267**	123,614

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 OPERATING EXPENSES (Continued)

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB157 million for the year, consisting of RMB136 million for financial statements audit service and RMB21 million for non-audit professional service. (2018: RMB197 million, consisting of RMB130 million for financial statements audit service and RMB67 million for non-audit professional service).

(3) From 1 May 2016, the Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from insurance business and trading of financial products at 6%.

Pursuant to the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs" (Cai Shui [2016] No. 46), the Bank elected to adopt a simplified methodology to calculate value-added taxes at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank's pilot programs of the Sannong Finance Division, including those under the Bank's provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

City construction and maintenance tax is calculated at 1%, 5% or 7% of VAT for the Group's Domestic Operations.

Education surcharge is calculated at 3%, while local education surcharge is calculated at 2% of VAT for the Group's Domestic Operations.

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB):*

		Year ended 31 December 2019				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xviii)	Total
Executive Directors						
Zhou Mubing		–	**579**	**86**	**76**	**741**
Zhang Keqiu	(i)	–	**521**	**82**	**76**	**679**
Independent Non-Executive Directors						
Xiao Xing		**380**	–	–	–	**380**
Wang Xinxin		**367**	–	–	–	**367**
Huang Zhenzhong		**367**	–	–	–	**367**
Ms. LEUNG KO May Yee	(ii)	**145**	–	–	–	**145**
Liu Shouying	(iii)	**146**	–	–	–	**146**

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

Item		Year ended 31 December 2019				
		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xviii)	Total
Non-Executive Directors						
Xu Jiandong		–	–	–	–	–
Chen Jianbo		–	–	–	–	–
Liao Luming		–	–	–	–	–
Li Qiyun		–	–	–	–	–
Li Wei	(iv)	–	–	–	–	–
Wu Jiangtao	(v)	–	–	–	–	–
Supervisors						
Wang Jingdong		–	579	86	76	741
Wang Xingchun		–	–	–	–	–
Xia Taili		50	–	–	–	50
Shao Lihong		50	–	–	–	50
Wu Gang	(vi)	13	–	–	–	13
Li Wang		280	–	–	–	280
Zhang Jie		310	–	–	–	310
Liu Hongxia		300	–	–	–	300
Senior Management						
Zhang Qingsong	(vii)	–	145	21	19	185
Zhang Xuguang	(viii)	–	43	7	7	57
Zhan Dongsheng	(ix)	–	478	75	69	622
Cui Yong	(x)	–	391	65	58	514
Li Zhicheng		–	974	147	76	1,197
Zhou Wanfu	(xi)	–	974	142	76	1,192
Executive Director resigned						
Wang Wei	(xii)	–	478	76	69	623
Cai Dong	(xiii)	–	304	47	44	395
Non-Executive Directors resigned						
Hu Xiaohui	(xiv)	–	–	–	–	–
Wen Tiejun	(xv)	272	–	–	–	272
Yuan Tianfan	(xv)	252	–	–	–	252
Supervisors resigned						
Liu Chengxu	(xvi)	40	–	–	–	40
Senior Management resigned						
Gong Chao	(xvii)	–	43	8	5	56
Total		**2,972**	**5,509**	**842**	**651**	**9,974**

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

(i) Zhang Keqiu was elected Executive Director effective 1 April 2019.

(ii) Ms. Leung Ko May Yee was elected Independent Non-Executive Director effective 30 July 2019.

(iii) Liu Shouying was elected Independent Non-Executive Director effective 29 July 2019.

(iv) Li Wei was elected Non-Executive Director effective 21 May 2019.

(v) Wu Jiangtao was elected Non-Executive Director effective 29 July 2019.

(vi) Wu Gang was elected Supervisor Representing Employees effective 9 October 2019.

(vii) Zhang Qingsong was elected President effective 11 November 2019 and Vice Chairman of the Board of Directors and Executive Director effective 14 January 2020.

(viii) Zhang Xuguang was elected Executive Vice President effective 23 December 2019.

(ix) Zhan Dongsheng was elected Executive Vice President effective 29 April 2019.

(x) Cui Yong was elected Executive Vice President effective 10 May 2019.

(xi) Zhou Wanfu ceased to be Secretary to the Board of Directors and the company secretary effective 24 March 2020.

(xii) Wang Wei ceased to be Executive Director effective 28 November 2019.

(xiii) Cai Dong was elected to be Executive Vice President effective 10 May 2019 and Executive Director effective 28 June 2019, ceased to be Executive Director and Executive Vice President effective 14 October 2019.

(xiv) Hu Xiaohui ceased to be Non-Executive Director effective 9 January 2019.

(xv) Wen Tiejun and Francis Yuen Tian-fan ceased to be Non-Executive Director effective 30 August 2019.

(xvi) Liu Chengxu ceased to be Supervisor representing employees effective 9 October 2019.

(xvii) Gong Chao ceased to be Secretary of the Party Discipline Committee effective 2 January 2019.

(xviii) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

The total compensation packages for the above Executive Directors, Supervisors and Senior Management for the year ended 31 December 2019 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC at the date of this consolidated financial statements. The final compensation will be disclosed in a separate announcement when determined.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

		Year ended 31 December 2018 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvi)	Total
Executive Directors						
Zhou Mubing		–	761	95	72	928
Wang Wei	(i)	–	685	96	73	854
Independent Non-Executive Directors						
Wen Tiejun		410	–	–	–	410
Francis Yuen Tin-fan		380	–	–	–	380
Xiao Xing		380	–	–	–	380
Wang Xinxin		360	–	–	–	360
Huang Zhenzhong		360	–	–	–	360
Non-Executive Directors						
Hu Xiaohui	(ii)	–	–	–	–	–
Xu Jiandong		–	–	–	–	–
Chen Jianbo		–	–	–	–	–
Liao Luming		–	–	–	–	–
Li Qiyun	(iii)	–	–	–	–	–
Supervisors						
Wang Jingdong	(iv)	–	254	36	28	318
Wang Xingchun		–	–	–	–	–
Liu Chengxu		50	–	–	–	50
Xia Taili	(v)	21	–	–	–	21
Shao Lihong	(v)	21	–	–	–	21
Li Wang	(vi)	280	–	–	–	280
Zhang Jie	(vi)	43	–	–	–	43
Liu Hongxia	(vi)	41	–	–	–	41
Senior Management						
Gong Chao	(vii)	–	685	95	74	854
Zhang Keqiu		–	685	129	73	887
Li Zhicheng		–	1,946	146	73	2,165
Zhou Wanfu	(viii)	–	1,297	94	50	1,441

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

Item		Year ended 31 December 2018 (Restated)				
		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvi)	Total
Executive Director resigned						
Zhao Huan	(ix)	–	571	69	56	696
Guo Ningning	(x)	–	571	74	62	707
Non-Executive Directors resigned						
Zhao Chao	(xi)	–	–	–	–	–
Zhang Dinglong	(xii)	–	–	–	–	–
Supervisors resigned						
Xia Zongyu	(xiii)	33	–	–	–	33
Lv Shuqin	(xiv)	241	–	–	–	241
Senior Management resigned						
Kang Yi	(xv)	–	55	7	9	71
Total		2,620	7,510	841	570	11,541

(i) *Wang Wei was elected Executive Director effective 13 February 2018..*

(ii) *Hu Xiaohui ceased to be Non-Executive Director effective 9 January 2019, and his emoluments disclosed above only include those for services rendered by him as the Senior Management for the year ended 31 December 2018.*

(iii) *Li Qiyun was elected Non-Executive Director effective 1 June 2018.*

(iv) *Wang Jingdong was elected Supervisor representing shareholders effective 12 November 2018, and Chairman of the Board of Supervisors effective 13 November 2018.*

(v) *Xia Taili and Shao Lihong were elected Supervisor representing employees effective 21 August 2018.*

(vi) *Li Wang, Zhang Jie and Liu Hongxia were elected External Supervisors effective 12 November 2018.*

(vii) *Gong Chao ceased to be Secretary of the Party Discipline Committee effective 2 January 2019.*

(viii) *Zhou Wanfu was elected Secretory of the Board of Directors effective 12 March 2018.*

(ix) *Zhao Huan cased to be Vice Chairman, Executive Director and President effective 29 September 2019.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): (Continued)*

(x) Guo Ningning was elected Executive Director effective 13 February 2018. She ceased to be Executive Director effective 22 October 2018.

(xi) Zhao Chao ceased to be Non-Executive Director effective 28 February 2018.

(xii) Zhang Dinglong ceased to be No-Executive Director effective 11 May 2018.

(xiii) Xia Zongyu ceased to be Supervisor representing employees effective 22 August 2018.

(xiv) Lv Shuqin resigned as Supervisor due to the expiry of her term of office in 29 June 2018. Lv Shuqin will continue to perform her duty as Supervisor until meet the requirement that the Supervisors shall represent at least one-third of the Board of Supervisors. She ceased to be Supervisor effective 12 November 2018.

(xv) Kang Yi ceased to be Vice Chairman effective 22 January 2018.

(xvi) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

As of the approval date of 2018 consolidated financial statements, the above compensation packages for the Directors, Supervisors and Senior Management for the year ended 31 December 2018 were not finalized and the amount of remuneration of Directors, Supervisors and Senior Management recognized and disclosed in the consolidated income statement for the year ended 31 December 2018 was RMB8.56 million. Supplementary announcement on final compensation of RMB11.54 million was released by the Bank on 30 August 2019 and the comparative figures for the year ended 31 December 2018 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 BENEFITS AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(2) *Five individuals with the highest emoluments in the Group*

(i) Of the five individuals with the highest emoluments, none of them are Directors, Supervisors or Senior Management whose emoluments are disclosed above. The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 and 31 December 2018 were as follows:

	Year ended 31 December	
	2019	2018
Basic salaries and allowance	**13**	14
Discretionary bonuses	**14**	10
Contribution to retirement benefit schemes and other	**1**	1
Total	**28**	25

(ii) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December	
	2019	2018
RMB4,000,001 to RMB4,500,000 yuan	**–**	1
RMB4,500,001 to RMB5,000,000 yuan	**2**	2
RMB5,000,001 to RMB5,500,000 yuan	**1**	1
RMB5,500,001 to RMB6,000,000 yuan	**–**	1
RMB6,000,001 to RMB6,500,000 yuan	**1**	–
RMB6,500,001 to RMB7,000,000 yuan	**–**	–
RMB7,000,001 to RMB7,500,000 yuan	**–**	–
RMB7,500,001 to RMB8,000,000 yuan	**1**	–

For the years ended 31 December 2019 and 31 December 2018, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. For the years ended 31 December 2019 and 31 December 2018, none of the five highest paid individuals waived any emolument.

(3) *Other benefits and interests of Directors and Supervisors pursuant to the Hong Kong Companies Ordinance (Cap.622).*

For the years ended 31 December 2019 and 31 December 2018, no emolument was paid by the Group to any of the Directors and Supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme (Note II 7 Employee Benefits), there were no other retirement benefits for Directors or Supervisors, or consideration provided to third parties for making available Directors' or Supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended 31 December 2019 and 31 December 2018.

The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors at arm's length in the ordinary course of business. For the years ended 31 December 2019 and 31 December 2018 and as at 31 December 2019 and 31 December 2018, the respective balances of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors were not significant. The Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2019	2018
Loans and advances to customers	**131,833**	130,111
Financial investments		
Debt instrument investments at amortized cost	**301**	1,384
Other debt instruments at fair value through other comprehensive income	**985**	2,575
Provision for guarantees and commitments	**3,990**	1,533
Placements with and loans to banks and other financial institutions	**30**	(41)
Financial assets held under resale agreements	**409**	(393)
Others	**1,057**	1,478
Total	**138,605**	136,647

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
Current income tax		
— PRC Enterprise Income Tax	**62,674**	63,111
— Hong Kong Profits Tax	**824**	804
— Other jurisdictions	**215**	211
Subtotal	**63,713**	64,126
Deferred tax (Note IV 22)	**(10,061)**	(15,083)
Total	**53,652**	49,043

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for both years, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in the PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the years ended 31 December 2019 and 31 December 2018 can be reconciled to the profit per the consolidated income statement as follows:

		Year ended 31 December	
		2019	2018
Profit before tax		**266,576**	251,674
Tax calculated at applicable PRC statutory tax rate of 25%		**66,644**	62,919
Tax effect of income not taxable for tax purpose	(1)	**(31,575)**	(26,202)
Tax effect of costs, expenses and losses not deductible for tax purpose		**18,684**	12,345
Effect of different tax rates in other jurisdictions		**(101)**	(19)
Income tax expense		**53,652**	49,043

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 DIVIDENDS

		Year ended 31 December	
		2019	2018
Dividends on ordinary shares declared and paid			
Cash dividend related to 2018	(1)	**60,862**	–
Cash dividend related to 2017	(2)	**–**	57,911
		60,862	57,911
Dividends on preference shares declared and paid	(3)	**4,600**	4,600

(1) *Distribution of final dividend for 2018*

A cash dividend of RMB0.1739 per ordinary share related to 2018, amounting to RMB60,862 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2018 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 30 May 2019.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2019.

(2) *Distribution of final dividend for 2017*

A cash dividend of RMB0.1783 per ordinary share related to 2017, amounting to RMB57,911 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2017 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 11 May 2018.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2018.

(3) *Distribution of dividend on preference shares for 2019*

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares of 2018 to 2019 amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 11 January 2019 and distributed on 11 March 2019.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares of 2018 to 2019 amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 30 August 2019 and distributed on 5 November 2019.

(4) *Distribution of dividend on preference shares for 2018*

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 11 January 2018 and distributed on 12 March 2018.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 28 August 2018 and distributed on 5 November 2018.

A final dividend of RMB0.1819 per ordinary share in respect of the year ended 31 December 2019 totaling RMB63,662 million has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is as follows:

	Year ended 31 December 2019	2018
Earnings:		
Profit for the year attributable to equity holders of the Bank	**212,098**	202,783
Less: profit for the year attributable to preference shareholders of the Bank	**(4,600)**	(4,600)
Profit for the year attributable to ordinary equity holders of the Bank	**207,498**	198,183
Number of shares:		
Weighted average number of ordinary shares in issue (million)	**349,983**	337,423
Basic and diluted earnings per share (RMB yuan)	**0.59**	0.59

For the years ended 31 December 2015 and 31 December 2014, the Bank issued non-cumulative preference shares, respectively, and the specific terms are included in Note IV 33 Other equity instruments.

For the year ended 31 December 2019, the Bank issued non-cumulative undated tier 1 capital bonds, and the specific terms are included in Note IV 33 Other equity instruments. The Bank has not declared any distribution for the year ended 31 December 2019.

For the purpose of calculating basic earnings per share, cash dividends of RMB4,600 million of non-cumulative preference shares declared in respect of the year of 2019 was deducted from the profit for the year attributable to equity holders of the Bank (2018: RMB4,600 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2019 and 31 December 2018, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

12 CASH AND BALANCES WITH CENTRAL BANKS

		As at 31 December 2019	2018
Cash		**92,928**	98,089
Mandatory reserve deposits with central banks	(1)	**2,018,692**	2,312,116
Surplus reserve deposits with central banks	(2)	**393,607**	223,555
Other deposits with central banks	(3)	**193,631**	170,187
Subtotal		**2,698,858**	2,803,947
Accrued interest		**1,037**	1,160
Total		**2,699,895**	2,805,107

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 CASH AND BALANCES WITH CENTRAL BANKS (Continued)

(1) *The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. According to the requirements of "Notice on Reducing Deposit Reserve Ratio for Financial Institutions issued by the People's Bank of China"(Yinfa [2019] No.4), RMB deposit reserve ratio for financial institutions is reduced by 1%, of which, by 0.5% from 15 January 2019 and 25 January 2019 respectively. And according to the "Notice of Dynamic Assessment Result of targeted cuts to required reserve ratios of Financial Institutions" issued by Business Administration Department of the People's Bank of China, RMB deposit reserve ratio is reduced by 1% from 25 January 2019. According to the requirements of "Notice on Reducing Deposit Reserve Ratio for Financial Institutions issued by the People's Bank of China"(Yinfa [2019] No.223), RMB deposit reserve ratio for financial institutions is reduced by 0.5% on 16 September 2019.*

For Domestic Operations of the Bank which meet the requirements of "Notice on Performance Appraisal Results of the Sannong Banking Operations of Agricultural Bank of China Limited for 2019 issued by the People's Bank of China" (Yinbanfa [2019] No. 60), effective 25 March 2019, RMB mandatory reserve deposits with the PBOC are based on 9.5% of qualified RMB deposits (31 December 2018: 12%). For the remaining Domestic Operations of the Bank, RMB mandatory reserve deposits are based on 11.5% of qualified RMB deposits (31 December 2018: 14%). For the overseas participating banks and clearing banks with eligible RMB deposits, RMB mandatory reserve deposits are based on 11.5 % of qualified RMB deposits (31 December 2018: 14%). Foreign currency mandatory reserve deposits are based on 5% (31 December 2018: 5%) of qualified foreign currency deposits from customers. Mandatory reserve deposits placed by the Bank's Overseas Operations are determined based on respective overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

(2) *Surplus reserve deposits primarily represent deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.*

(3) *Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group's daily operations. Fiscal deposits are non-interest bearing from government, and the interest rate for foreign exchange risk reserve is currently set at zero. The foreign exchange risk reserve is maintained with the PBOC in accordance with the "Notice on Reinforcing the Macro Prudential Management of Foreign Exchange Transactions" (Yinfa [2015] No.273) issued by the PBOC on 31 August 2015. From 6 August 2018, the foreign exchange risk reserve rate was adjusted to 20% according to the "Notice on Adjustment of Foreign Exchange Risk Reserves Policy" (Yinfa [2018] No. 190) issued by PBOC on 3 August 2018.*

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Deposits with:		
Domestic banks	**185,905**	54,075
Other domestic financial institutions	**14,292**	12,296
Overseas banks	**34,493**	43,711
Gross carrying amount	**234,690**	110,082
Accrued interest	**2,118**	196
Allowance for impairment losses	**(1,066)**	(550)
Deposits with banks and other financial institutions, net	**235,742**	109,728

As at 31 December 2019, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB14,670 million (31 December 2018: RMB13,080 million). These deposits were mainly security deposits pledged with clearing house and exchanges.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Placements with and loans to:		
Domestic banks	**162,772**	193,744
Other domestic financial institutions	**252,498**	256,887
Overseas banks and other financial institutions	**106,047**	99,172
Gross carrying amount	**521,317**	549,803
Accrued interest	**3,289**	3,594
Allowance for impairment losses	**(1,423)**	(1,384)
Placements with and loans to banks and other financial institutions, net	**523,183**	552,013

15 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized 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 instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. As at 31 December 2019 and 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. The Group did not elect to offset these financial assets and financial liabilities on a net basis. The Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

	31 December 2019		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	**2,751,623**	**23,588**	**(19,835)**
Currency options	**108,691**	**540**	**(547)**
Subtotal		**24,128**	**(20,382)**
Interest rate derivatives			
Interest rate swaps	**225,976**	**340**	**(1,676)**
Precious metal contracts and others	**95,328**	**476**	**(7,490)**
Total derivative financial assets and liabilities		**24,944**	**(29,548)**

	31 December 2018		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	2,850,770	34,202	(30,657)
Currency options	75,226	886	(738)
Subtotal		35,088	(31,395)
Interest rate derivatives			
Interest rate swaps	418,445	1,654	(839)
Precious metal contracts and others	76,631	202	(2,320)
Total derivative financial assets and liabilities		36,944	(34,554)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective 1 January 2013 and "Measurement Rule of Counterparty Default Risk Weighted Assets on Derivatives" issued by the CBIRC which was effective 1 January 2019,and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 31 December 2019 and 31 December 2018, the credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings — Based approach.

	As at 31 December	
	2019	2018
Credit risk weighted amount for counterparty	**90,486**	17,336

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2019	2018
Analyzed by collateral type:		
Debt securities	**681,891**	343,571
Bills	**27,958**	27,475
Subtotal	**709,849**	371,046
Accrued interest	**308**	1,152
Allowance for impairment losses	**(1,606)**	(1,197)
Financial assets held under resale agreements, net	**708,551**	371,001

The collateral received in connection with financial assets held under resale agreement is disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS

17.1 Analyzed by measurement basis

		As at 31 December	
		2019	2018
Measured at amortized cost	(1)	**12,279,223**	11,027,381
Measured at fair value through other comprehensive income	(2)	**540,387**	433,912
Measured at fair value through profit or loss	(3)	**–**	249
Total		**12,819,610**	11,461,542

(1) *Measured at amortized cost:*

	As at 31 December	
	2019	2018
Corporate loans and advances		
Loans and advances	**7,381,532**	*6,802,200*
Personal loans and advances	**5,407,627**	*4,677,264*
Total	**12,789,159**	*11,479,464*
Accrued interest	**30,642**	*27,060*
Allowance for impairment losses	**(540,578)**	*(479,143)*
Carrying amount of loans and advances to customers measured at amortized cost	**12,279,223**	*11,027,381*

(2) *Measured at fair value through other comprehensive income:*

	As at 31 December	
	2019	2018
Measured at fair value through other comprehensive income:		
Corporate loans and advances		
Loans and advances	**118,997**	*89,951*
Discounted bills	**421,390**	*343,961*
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	**540,387**	*433,912*

(3) *Measured at fair value through profit or loss*

	As at 31 December	
	2019	2018
Corporate loans and advances		
Loans and advances	**–**	*249*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.2 Analyzed by assessment method of ECL

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III (i)	
	12m ECL	Lifetime ECL		Total
Gross loans and advances measured at amortized cost (accrued interest not included)	**12,281,653**	**320,316**	**187,190**	**12,789,159**
Allowance for impairment losses	**(351,550)**	**(57,693)**	**(131,335)**	**(540,578)**
Loans and advances to customers, net	**11,930,103**	**262,623**	**55,855**	**12,248,581**
Loans and advances measured at fair value through other comprehensive income	**540,068**	**299**	**20**	**540,387**
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	**(12,495)**	**(27)**	**(15)**	**(12,537)**

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III (i)	
	12m ECL	Lifetime ECL		Total
Gross loans and advances measured at amortized cost (accrued interest not included)	10,929,528	359,934	190,002	11,479,464
Allowance for impairment losses	(261,704)	(68,455)	(148,984)	(479,143)
Loans and advances to customers, net	10,667,824	291,479	41,018	11,000,321
Loans and advances measured at fair value through other comprehensive income	433,488	424	–	433,912
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	(7,460)	(9)	–	(7,469)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.2 Analyzed by assessment method of ECL (Continued)

The ECL for corporate loans and advances in stage I and stage II, as well as personal loans and advances, were measured in accordance with the risk parameters modelling method. The ECL for corporate loans and advances in Stage III were calculated using the cash flow discount model. For details, see Note IV 44.1 Credit Risk.

(i) At 31 December 2019, the Group's exposure of credit-impaired Stage III loans and advances covered by collateral and pledge of the Group was RMB30,745million (31 December 2018: the Group's exposure of credit-impaired Stage III loans and advances covered by collateral and pledge of the Group was RMB30,599 million).

17.3 Analyzed by movements in loss allowance

The movements of loss allowance is mainly affected by:

– Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired;

– Allowance for new financial instruments recognized;

– Remeasurement includes the impact of changes in model assumptions, updates of model parameters, changes in probability of default and loss given default; changes in ECL due to transfer of financial assets between stages; changes in ECL due to unwinding of discount over time; changes in foreign exchange translations for assets denominated in foreign currencies and other movements; and

– The reversal of allowances caused by repayment, write-offs and transfer of financial assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses:

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
Corporate loans and advances	12m ECL (i)	Lifetime ECL (ii)		Total
31 December 2018	**191,146**	**63,973**	**128,611**	**383,730**
Transfer:				
Stage I to stage II	**(6,261)**	**6,261**	**–**	**–**
Stage II to stage III	**–**	**(19,356)**	**19,356**	**–**
Stage II to stage I	**5,948**	**(5,948)**	**–**	**–**
Stage III to stage II	**–**	**3,390**	**(3,390)**	**–**
Originated or purchased financial assets	**72,673**	**–**	**–**	**72,673**
Remeasurement	**25,292**	**16,147**	**40,776**	**82,215**
Repayment and transfer out	**(39,198)**	**(11,076)**	**(35,664)**	**(85,938)**
Write-offs	**–**	**–**	**(39,209)**	**(39,209)**
31 December 2019	**249,600**	**53,391**	**110,480**	**413,471**

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
Personal loans and advances	12m ECL (iii)	Lifetime ECL (iv)		Total
31 December 2018	**78,018**	**4,491**	**20,373**	**102,882**
Transfer:				
Stage I to stage II	**(1,530)**	**1,530**	**–**	**–**
Stage II to stage III	**–**	**(5,190)**	**5,190**	**–**
Stage II to stage I	**973**	**(973)**	**–**	**–**
Stage III to stage II	**–**	**482**	**(482)**	**–**
Originated or purchased financial assets	**50,904**	**–**	**–**	**50,904**
Remeasurement	**12,311**	**5,129**	**13,406**	**30,846**
Repayment and transfer out	**(26,231)**	**(1,140)**	**(5,428)**	**(32,799)**
Write-offs	**–**	**–**	**(12,189)**	**(12,189)**
31 December 2019	**114,445**	**4,329**	**20,870**	**139,644**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses (Continued):

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
Corporate loans and advances	12m ECL (v)	Lifetime ECL (vi)		Total
1 January 2018	160,902	53,285	126,922	341,109
Transfer:				
Stage I to stage II	(9,105)	9,105	–	–
Stage II to stage III	–	(22,224)	22,224	–
Stage II to stage I	3,948	(3,948)	–	–
Stage III to stage II	–	2,217	(2,217)	–
Originated or purchased financial assets	48,217	–	–	48,217
Remeasurement	21,108	29,648	62,188	112,944
Repayment and transfer out	(33,924)	(4,110)	(26,946)	(64,980)
Write-offs	–	–	(53,560)	(53,560)
31 December 2018	191,146	63,973	128,611	383,730

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
Personal loans and advances	12m ECL (vii)	Lifetime ECL (viii)		Total
1 January 2018	60,853	3,924	25,389	90,166
Transfer:				
Stage I to stage II	(1,124)	1,124	–	–
Stage II to stage III	–	(1,248)	1,248	–
Stage II to stage I	1,139	(1,139)	–	–
Stage III to stage II	–	411	(411)	–
Originated or purchased financial assets	35,789	–	–	35,789
Remeasurement	(2,634)	3,750	10,441	11,557
Repayment and transfer out	(16,005)	(2,331)	(3,291)	(21,627)
Write-offs	–	–	(13,003)	(13,003)
31 December 2018	78,018	4,491	20,373	102,882

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

(i) In 2019, the changes of the Group's loss allowance of corporate loans and advances in Stage I were mainly driven by both a net increase of nearly 11% in the corresponding gross amount and an increase in provision rate.

(ii) In 2019, the provision rate of the Group's corporate loans and advances in Stage II remains stable. The changes of the Group's loss allowance of corporate loans and advances in Stage II were mainly driven by a net decrease of nearly 13% in the corresponding gross amount;

In 2019, the changes of the Group's corporate loans and advances in Stage III were mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III corporate loans and advances. There was no significant change in the gross amount of Stage III corporate loans and advances as of 31 December 2018 and 31 December 2019.

(iii) In 2019, the changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven by both a net increase of nearly 16% in the corresponding gross amount and an increase in provision rate.

(iv) In 2019, the provision rate of the Group's personal loans and advances in Stage II remains stable. There was no significant change in the gross amount of Stage II personal loans and advances as of 31 December 2018 and 31 December 2019. Transfer between stages led to net increase in the gross amount of personal loans and advances in Stage II, this is mainly driven by the net transfer in from Stage I and the transferred amount is approximately 1% of the beginning balance of Stage I personal loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was netted off by the transfer to Stage III and the repayment of Stage II personal loans and advances. The transferred amount to Stage III is nearly 70% of the Stage II balances as of 31 December 2018. Repayment amount of Stage II personal loans and advances is about 20% of the Stage II balances as of 31 December 2018;

In 2019, the changes in loss allowance of the Group's personal loans and advances in Stage III is mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III personal loans and advances. There was no significant change in the gross amount of Stage III personal loans and advances as of 31 December 2018 and 31 December 2019.

(v) In 2018, the provision rate of the Group's corporate loans and advances in Stage I remains stable. The changes of the Group's loss allowance of corporate loans and advances in Stage I were mainly driven by a net increase of nearly 12% in the corresponding gross amount.

(vi) In 2018, transfer between stages led to net increase in the gross amount of corporate loans and advances in Stage II, this is mainly driven by the net transfer in from Stage I and the transferred amount is approximately 3% of the beginning balance of Stage I corporate loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was netted off by the repayment of Stage II corporate loans and advances. Repayment amount of Stage II corporate loans and advances is about 30% of the beginning Stage II balances. There was no significant change in the gross amount of Stage II corporate loans and advances as of 1 January 2018 and 31 December 2018. The changes in loss allowance is mainly driven by the changes in provision rates;

In 2018, the provision rate of the Group's corporate loans and advances in Stage III remains stable. The changes in loss allowance is mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III corporate loans and advances. There was no significant change in the gross amount of Stage III corporate loans and advances as of 1 January 2018 and 31 December 2018.

(vii) In 2018, the provision rate of the Group's personal loans and advances remains stable. The changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven by a net increase of approximately 17% in the corresponding gross amount.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.3 Analyzed by movements in loss allowance (Continued)

(viii) In 2018, transfer between stages led to net increase in the gross amount of personal loans and advances in Stage II, this is mainly driven by the net transfer in from Stage I and the transferred amount is approximately 1% of the beginning balance of Stage I personal loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was netted off by the repayment of Stage II personal loans and advances. Repayment amount of Stage II personal loans and advances is about 50% of the Stage II balances as of 1 January 2018. There was no significant change in the gross amount of Stage II personal loans and advances as of 1 January 2018 and 31 December 2018. The changes in loss allowance is mainly driven by the changes in provision rates;

In 2018, the provision rate of the Group's personal loans and advances in Stage III remains stable. The changes in loss allowance is mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III personal loans and advances. In 2018, the net decrease of the gross amount of the Group's personal loans and advances in Stage III is approximately 12%.

18 FINANCIAL INVESTMENTS

		As at 31 December	
		2019	2018
Financial assets at fair value through profit or loss	18.1	**801,361**	643,245
Debt instrument investments at amortized cost	18.2	**4,946,741**	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	18.3	**1,674,828**	1,738,132
Total		**7,422,930**	6,885,075

18.1 Financial assets at fair value through profit or loss

		As at 31 December	
		2019	2018
Financial assets mandatorily measured at fair value through profit or loss:			
— Held for trading	(1)	**240,281**	246,788
— Other financial assets at fair value through profit or loss	(2)	**216,052**	129,725
Financial assets designated at fair value through profit or loss	(3)	**345,028**	266,732
Total		**801,361**	643,245
Analyzed as:			
Listed in Hong Kong		**3,695**	4,101
Listed outside Hong Kong	(i)	**481,884**	519,076
Unlisted		**315,782**	120,068
Total		**801,361**	643,245

(i) 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)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.1 Financial assets at fair value through profit or loss (Continued)

(1) Financial assets held for trading

	As at 31 December 2019	2018
Debt securities issued by:		
Governments	**10,371**	11,302
Public sector and quasi-governments	**45,231**	87,444
Financial institutions	**102,650**	62,506
Corporates	**43,207**	52,756
Subtotal	**201,459**	214,008
Precious metal contracts	**29,132**	28,139
Equity	**2,354**	1,986
Fund	**7,336**	2,655
Total	**240,281**	246,788

(2) Other financial assets at fair value through profit or loss (ii)

	As at 31 December 2019	2018
Debt securities issued by:		
Public sector and quasi-governments	**19,434**	20,554
Financial institutions	**72,334**	51,947
Corporates	**5,724**	4,385
Subtotal	**97,492**	76,886
Equity	**95,183**	33,778
Fund and others	**23,377**	19,061
Total	**216,052**	129,725

(ii) Other financial assets at fair value through profit or loss refer to financial assets that do not qualify for measurement at AC or FVOCI and are not held for trading, including bond investments, equity interests, funds, trust plans and asset management products, among other things, of the Group and the Bank.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.1 Financial assets at fair value through profit or loss (Continued)

(3) Financial assets designated at fair value through profit or loss (iii)

	As at 31 December 2019	2018
Debt securities issued by:		
Governments	**17,137**	21,257
Public sector and quasi-governments	**19,790**	33,399
Financial institutions	**147,389**	49,711
Corporates	**27,334**	38,537
Subtotal	**211,650**	142,904
Deposits with banks and other financial institutions	**28,207**	9,174
Placements with and loans to banks and other financial institutions	**104,184**	110,431
Others	**987**	4,223
Total	**345,028**	266,732

(iii) Financial assets designated at fair value through profit or loss mainly include the financial asset invested by the wealth management products ("WMPs") with principal guaranteed by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost

		As at 31 December	
		2019	2018
Debt securities issued by:			
Governments		**2,755,256**	2,299,357
Public sector and quasi-governments		**1,278,027**	1,255,738
Financial institutions		**302,220**	300,010
Corporates		**124,558**	169,480
Subtotal		**4,460,061**	4,024,585
Receivable from the MOF	(i)	**290,891**	290,891
Special government bonds	(ii)	**93,352**	93,358
Others	(iii)	**16,791**	22,443
Total		**4,861,095**	4,431,277
Accrued interest		**95,134**	81,608
Allowance for impairment losses		**(9,488)**	(9,187)
Debt instrument investments at amortized cost, net		**4,946,741**	4,503,698
Analyzed as:			
Listed in Hong Kong		**17,851**	12,698
Listed outside Hong Kong	(iv)	**4,567,976**	4,116,972
Unlisted		**360,914**	374,028
Total		**4,946,741**	4,503,698

(i) The Group received a notice from the MOF in January 2020, clarifying that from 1 January 2020, the interest rate of the unpaid payments will be verified year by year based on the rate of return of the five-year treasury bond of the previous year.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instruments classified as receivables are primarily related to investment in unconsolidated structured entities held by the Group (Note IV 41(2)).

(iv) 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)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost (Continued)

(1) Analyzed by assessment method of ECL

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross debt instrument investments at amortized cost	**4,953,832**	**1,196**	**1,201**	**4,956,229**
Allowance for impairment losses	**(8,409)**	**(32)**	**(1,047)**	**(9,488)**
Debt instrument investments at amortized cost, net	**4,945,423**	**1,164**	**154**	**4,946,741**

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross debt instrument investments at amortized cost	4,509,520	1,043	2,322	4,512,885
Allowance for impairment losses	(6,691)	(236)	(2,260)	(9,187)
Debt instrument investments at amortized cost, net	4,502,829	807	62	4,503,698

Debt instrument investments at amortized cost in stage II and stage III mainly included corporate bond and other debt instruments investment.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.2 Debt instrument investments at amortized cost (Continued)

(2) Analyzed by movements in loss allowance (i)

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
31 December 2018	**6,691**	**236**	**2,260**	**9,187**
Transfer:				
Stage I transfer to stage II	**(29)**	**29**	**–**	**–**
Stage I transfer to stage III	**(382)**	**–**	**382**	**–**
Originated or purchased financial assets	**1,832**	**–**	**–**	**1,832**
Remeasurement	**1,534**	**3**	**4**	**1,541**
Maturities or transfer out	**(1,237)**	**(236)**	**(1,599)**	**(3,072)**
31 December 2019	**8,409**	**32**	**1,047**	**9,488**

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2018	5,883	20	2,261	8,164
Transfer:				
stage I transfer to stage II	(9)	9	–	–
Originated or purchased financial assets	2,242	–	–	2,242
Remeasurement	(369)	227	233	91
Maturities or transfer out	(1,056)	(20)	(234)	(1,310)
31 December 2018	6,691	236	2,260	9,187

(i) As at 31 December 2019, the increases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to the increase of debt instrument investments and the remeasurement of remained debt instrument investments in the year.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income

		Year ended 31 December 2019			
		Amortized cost of debt instruments/ cost of equity instruments	**Fair value**	**Cumulative amount of change in fair value that is accrued to other comprehensive income**	**Cumulative amount of impairment**
Debt instruments	(1)	**1,650,974**	**1,671,746**	**20,772**	**(6,897)**
Equity instruments	(2)	**2,050**	**3,082**	**1,032**	**N/A**
Total		**1,653,024**	**1,674,828**	**21,804**	**(6,897)**

		Year ended 31 December 2018			
		Amortized cost of debt instruments/ cost of equity instruments	Fair value	Cumulative amount of change in fair value that is accrued to other comprehensive income	Cumulative amount of impairment
Debt instruments	(1)	1,725,961	1,735,892	9,931	(6,327)
Equity instruments	(2)	1,598	2,240	642	N/A
Total		1,727,559	1,738,132	10,573	(6,327)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments

(a) Analyzed by measurement basis

	As at 31 December	
	2019	2018
Debt securities issued by:		
Governments	**744,035**	707,987
Public sector and quasi-governments	**247,527**	263,005
Financial institutions	**478,172**	544,934
Corporates	**165,270**	186,738
Subtotal	**1,635,004**	1,702,664
Others	**18,556**	14,287
Subtotal of debt instruments	**1,653,560**	1,716,951
Accrued interest	**18,186**	18,941
Total	**1,671,746**	1,735,892
Analyzed as:		
Listed in Hong Kong	**107,477**	98,119
Listed outside Hong Kong	**1,499,316**	1,593,843
Unlisted	**64,953**	43,930
Total	**1,671,746**	1,735,892

(i) Others primarily include trust investment plans and debt investment plans invested by the Group, which related to investment in other unconsolidated structured entities held by the Group (Note IV 41(2)).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(b) Analyzed by assessment method of ECL

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Other debt instruments at fair value through other comprehensive income	**1,671,525**	**–**	**221**	**1,671,746**
Allowance for impairment losses	**(6,874)**	**–**	**(23)**	**(6,897)**

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Other debt instruments at fair value through other comprehensive income	1,730,932	4,783	177	1,735,892
Allowance for impairment losses	(5,720)	(552)	(55)	(6,327)

Other debt instruments at fair value through other comprehensive income in stage II and stage III mainly included corporate bond investments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 FINANCIAL INVESTMENTS (Continued)

18.3 Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)

(1) Debt instruments (Continued)

(c) Analyzed by movements in loss allowance (ii)

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
31 December 2018	**5,720**	**552**	**55**	**6,327**
Transfer:				
stage II transfer to stage I	**26**	**(26)**	**–**	**–**
Originated or purchased financial assets	**2,129**	**–**	**–**	**2,129**
Remeasurement	**186**	**–**	**23**	**209**
Maturities or transfer out	**(1,187)**	**(526)**	**(55)**	**(1,768)**
31 December 2019	**6,874**	**–**	**23**	**6,897**

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2018	5,290	125	186	5,601
Transfer:				
stage I transfer to stage II	(35)	35	–	–
stage II transfer to stage I	51	(51)	–	–
Originated or purchased financial assets	1,958	–	–	1,958
Remeasurement	(143)	452	39	348
Maturities or transfer out	(1,401)	(9)	(170)	(1,580)
31 December 2018	5,720	552	55	6,327

(ii) As at 31 December 2019, the increases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to the increase of debt instrument investments and the derecognition of debt instrument investments in the year.

(2) Equity instruments

	As at 31 December	
	2019	2018
Other financial institutions	**2,878**	2,036
Other enterprises	**204**	204
Total	**3,082**	2,240

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES

(1) *Investment in subsidiaries*

The following are the principal subsidiaries of the Group as at 31 December 2019:

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,449	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.		29 September 2010	Shanghai, PRC	RMB9,500,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,000	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.		18 March 2008	Shanghai, PRC	RMB1,750,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(i)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB40,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company		24 May 2012	Fujian, PRC	RMB100,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(ii)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited	(iii)	23 December 2014	Moscow, Russia	RUB7,556,038,271	100.00	100.00	Banking
ABC Financial Asset Investment Co., Ltd.		1 August 2017	Beijing, PRC	RMB10,000,000,000	100.00	100.00	Debt-to-equity swap and related services
Agricultural Bank of China Wealth Management Co., Ltd.	(iv)	25 July 2019	Beijing, PRC	RMB12,000,000,000	100.00	100.00	Wealth Management

During the year ended 31 December 2019 and 31 December 2018, there were no changes in the proportion of equity interest or voting rights the Group held in its subsidiaries.

(i) Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over and has included this entity in its consolidation scope.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES (Continued)

(1) Investment in subsidiaries (Continued)

(ii) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance"). The Group recognized goodwill of RMB1,381 million as a result of this acquisition. During the year ended 31 December 2016, the Group and other investors contributed additional capital totalling RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Life Insurance remained at 51%.

The Bank tests the impairment of goodwill annually. When performing the impairment test, the Bank compares the carrying amount of the assets (including goodwill and the value of the mergers and acquisitions after deduction of amortization) with the recoverable amount. The excess of carrying amount over recoverable amount is recognized in profit or loss of the current period.

The recoverable amount of the assets is based on adjusted net assets, value of in-force business, value of one year of new business, new business multiplier, and other data approved by the management of ABC Life Insurance. The actuarial valuation method is applied and the risk discount rate, return on investment, valuation discount rate, and other assumptions adopted to forecast cash flows respectively reflect the specific risks associated with them.

As at 31 December 2019 and 31 December 2018, there was no objective evidence noted for any goodwill impairment, and no impairment loss was recognized.

(iii) During the year ended 31 December 2019, the Group contributed additional capital totaling RMB617 million to Agricultural Bank of China (Moscow) Limited, which with a corresponding increase of RMB617 million in the registered capital of Agricultural Bank of China (Moscow) Limited. After the capital injection, the proportion of equity interest and voting rights the Group held in Agricultural Bank of China (Moscow) Limited remained at 100%.

(iv) During the year ended 31 December 2019, the Bank established Agricultural Bank of China Wealth Management Co., Ltd. as its wholly-owned subsidiary.

(2) Structured entities

The Group also consolidated structured entities as disclosed in Note IV 41 Structured Entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

(1) *Investment in associates*

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Sino-Congolese Bank of Africa	(i)	2015	Brazzaville, Congo	XAF53,342,800,000	50.00	50.00	Bank
Beijing Guofa Aero Engine Industry Investment Fund Center LP	(ii)	2018	Beijing, PRC	RMB4,075,200,000	24.29	20.00	Non Securities investment activities and related advisory services
Jilin Hongqizhiwang New Energy Automobile Fund Investment Management Center LP	(ii)	2019	Jilin, PRC	RMB100,000,000	29.50	20.00	Non Securities investment activities and related advisory services

(i) On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour l'Afrique, hereinafter referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA.Bank, and has the right to participate in the financial and operating policy decisions of BSCA.Bank, but does not constitute control or joint control over those policy decisions.

(ii) The Bank's wholly-owned subsidiary, ABC Financial Assets Investment Co., Ltd. and other investors invested in the above mentioned enterprises. The Group has the right to participate in the financial and operating policy decisions of these enterprises but the right does not constitute control or joint control over those policy decisions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (Continued)

(2) Investment in joint ventures

Name of entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Jiangsu Jiequan ABC State-owned Enterprise Mixed Ownership Reform Fund LP	2018	Jiangsu, PRC	RMB1,000,000,000	69.00	28.57	Equity investment, Debt-to-Equity and related supporting services
ABC Gaotou (Hubei) Debt-to-Equity Investment Fund LP	2018	Hubei, PRC	RMB500,000,000	74.00	33.33	Non Securities equity investment activities and related advisory services
Suida(Jiaxing) Investment LP	2018	Zhejiang, PRC	RMB1,200,000,000	41.71	40.00	Industrial Investment
ABC New Silk Road (Jiaxing) Investment Fund LP	2018	Zhejiang, PRC	RMB1,500,000,000	66.67	50.00	Industrial investment and equity investment
Shenzhen Zhaoping Suida Investment Center LP	2018	Guangdong, PRC	RMB400,000,000	50.00	40.00	Industrial investment and investment advisory
Zhejiang New Power Fund LP	2018	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Industrial investment and equity investment
Chengdu Chuanneng Lithium Energy Equity Investment Fund LP	2018	Sichuan, PRC	RMB2,520,000,000	30.16	28.57	Non-publicly traded equity investments and related advisory services
Yiwu Emerging Power Equity Investment Fund Partnership (Limited Partnership)	2019	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Equity investment, debt-to-equity swap and supporting business
Shanghai Guohua Oil&Gas Equity Investment Fund, Ltd.	2019	Shanghai, PRC	RMB1,800,000,000	66.67	50.00	Equity investment, Debt-to-Equity and related supporting services
Nongyizihuan (Jiaxing) Equity Investment Partnership LP	2019	Zhejiang, PRC	RMB400,000,000	70.00	50.00	Investment and investment management
Inner Mogolia Mengxingzhuli Development Fund Investment Center LP	2019	Inner Mongolia, PRC	RMB2,000,000,000	50.00	50.00	Equity Investment, investment Management and investment advisory service
Jianxinjintou Infrastructure Equity Investment (Tianjin) Fund LP	2019	Tianjin,PRC	RMB3,500,000,000	20.00	20.00	Equity Investment and investment management

The wholly-owned subsidiary of the Bank, ABC Financial Assets Investment Co., Ltd. and other investors established the above-mentioned partnership. According to the partnership agreements, matters considered at the Meeting of Partners or investment decision-making committee shall be approved by the unanimous consent of all the partners or all the committee members. The Bank constitutes joint control over the financial and operating policy decisions of these limited partnerships with the other investors.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 PROPERTY AND EQUIPMENT

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2019	186,443	65,804	11,097	7,986	271,330
Additions	10,999	10,053	2,945	2,060	26,057
Transfers	5,097	226	1	(5,324)	–
Disposals	(9,074)	(8,967)	(679)	(401)	(19,121)
31 December 2019	193,465	67,116	13,364	4,321	278,266
Accumulated depreciation					
1 January 2019	(67,584)	(47,735)	(3,258)	–	(118,577)
Charge for the year	(6,613)	(5,919)	(545)	–	(13,077)
Disposals	588	5,189	410	–	6,187
31 December 2019	(73,609)	(48,465)	(3,393)	–	(125,467)
Allowance for impairment losses					
1 January 2019	(271)	(21)	(1)	(8)	(301)
Impairment loss	–	–	–	(26)	(26)
Disposals	6	5	1	–	12
31 December 2019	(265)	(16)	–	(34)	(315)
Carrying value					
31 December 2019	119,591	18,635	9,971	4,287	152,484
1 January 2019	118,588	18,048	7,838	7,978	152,452

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 PROPERTY AND EQUIPMENT (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2018	173,802	64,846	10,009	16,170	264,827
Additions	3,532	5,310	1,613	4,904	15,359
Transfers	12,210	236	121	(12,567)	–
Disposals	(3,101)	(4,588)	(646)	(521)	(8,856)
31 December 2018	186,443	65,804	11,097	7,986	271,330
Accumulated depreciation					
1 January 2018	(61,235)	(44,900)	(3,022)	–	(109,157)
Charge for the year	(7,048)	(6,442)	(614)	–	(14,104)
Disposals	699	3,607	378	–	4,684
31 December 2018	(67,584)	(47,735)	(3,258)	–	(118,577)
Allowance for impairment losses					
1 January 2018	(294)	(8)	(1)	(109)	(412)
Impairment loss	(3)	(13)	–	–	(16)
Disposals	26	–	–	101	127
31 December 2018	(271)	(21)	(1)	(8)	(301)
Carrying value					
31 December 2018	118,588	18,048	7,838	7,978	152,452
1 January 2018	112,273	19,938	6,986	16,061	155,258

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2019, the registration transfer process of these transferred properties and other certain properties have not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2019	2018
Deferred tax assets	**120,952**	113,293
Deferred tax liabilities	**(520)**	(139)
Net	**120,432**	113,154

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	**Accrued but unpaid staff cost**	**Early retirement benefits**	**Provision**	**Fair value changes of financial instruments**	**Others**	**Total**
31 December 2018	**103,435**	**8,865**	**720**	**6,471**	**(6,579)**	**242**	**113,154**
Credit/(charge) to the consolidated income statement	**10,705**	**310**	**(187)**	**1,169**	**(1,940)**	**4**	**10,061**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**(2,783)**	**–**	**(2,783)**
31 December 2019	**114,140**	**9,175**	**533**	**7,640**	**(11,302)**	**246**	**120,432**

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
31 December 2017	78,656	7,376	940	2,677	7,763	252	97,664
Change in accounting policy	7,266	–	–	3,841	(1,363)	–	9,744
1 January 2018	85,922	7,376	940	6,518	6,400	252	107,408
Credit/(charge) to the consolidated income statement	17,513	1,489	(220)	(47)	(3,642)	(10)	15,083
Credit to other comprehensive income	–	–	–	–	(9,337)	–	(9,337)
31 December 2018	103,435	8,865	720	6,471	(6,579)	242	113,154

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 DEFERRED TAXATION (Continued)

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**456,559**	**114,140**	413,742	103,435
Fair value changes of financial instruments	**23,426**	**5,856**	29,070	7,268
Accrued but unpaid staff cost	**36,700**	**9,175**	35,462	8,865
Provision	**30,558**	**7,640**	25,883	6,471
Early retirement benefits	**2,133**	**533**	2,883	720
Others	**1,019**	**255**	1,071	268
Subtotal	**550,395**	**137,599**	508,111	127,027
Deferred tax liabilities				
Fair value changes of financial instruments	**(68,635)**	**(17,158)**	(55,392)	(13,847)
Others	**(35)**	**(9)**	(104)	(26)
Subtotal	**(68,670)**	**(17,167)**	(55,496)	(13,873)
Net	**481,725**	**120,432**	452,615	113,154

23 OTHER ASSETS

		As at 31 December	
		2019	2018
Accounts receivable and temporary payments	(1)	**78,132**	54,309
Land use rights	(2)	**19,889**	20,804
Right-of-use assets	(3)	**10,805**	NA
Intangible assets		**3,229**	2,771
Interest receivable		**3,030**	2,993
Investment properties		**2,730**	2,894
Long-term deferred expenses		**1,792**	2,196
Value-added tax receivable		**1,173**	1,079
Foreclosed assets		**594**	667
Premiums receivable and reinsurance assets		**564**	608
Others		**9,943**	7,341
Total		**131,881**	95,662

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 OTHER ASSETS (Continued)

(1) *Account receivables and temporary payments, which include receivables from settlement accounts and liquidation account, amount receivables from the MOF, other receivables, etc.*

For account receivables arising from revenue recognized in accordance with IFRS 15, the entity measures the loss allowance at amount equal to lifetime ECL using a simplified approach. At 31 December 2019, the principals of these account receivables was RMB2,658 million (31 December 2018: RMB10,692 million), and the loss allowance at amount equal to lifetime ECL was RMB859 million (31 December 2018: RMB610 million).

For other account receivables, the entity measures ECL using relatively simple ECL models, by which The Group prepares a provision matrix incorporating current condition and future forecast to measure loss allowances. At 31 December 2019, the gross amount of these account receivables was RMB78,994 million (31 December 2018: RMB46,862 million), and the loss allowance was RMB2,661 million (31 December 2018: RMB2,635 million).

(2) *According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2019, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.*

(3) *As at 31 December 2019, the right-of-use assets recognized by the Group are mainly include operation buildings, and are mainly used for daily business. The depreciation expense in the year of 2019 was amounting to RMB3,700 million, and the accumulated depreciation amounting to RMB3,700 million.*

24 BORROWINGS FROM CENTRAL BANKS

As at 31 December 2019, borrowings from central bank mainly included Medium-term Lending Facilities from PBOC amounting to RMB596,500 million (31 December 2018: RMB551,500 million).

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Deposits from:		
Domestic banks	**100,894**	47,202
Other domestic financial institutions	**1,339,628**	1,016,565
Overseas banks	**3,242**	8,906
Other overseas financial institutions	**55,438**	44,280
Subtotal	**1,499,202**	1,116,953
Accrued interest	**4,707**	7,369
Total	**1,503,909**	1,124,322

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December **2019**	2018
Placements from:		
Domestic banks and other financial institutions	**148,603**	137,955
Overseas banks and other financial institutions	**175,124**	185,870
Subtotal	**323,727**	323,825
Accrued interest	**1,636**	1,716
Total	**325,363**	325,541

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		As at 31 December **2019**	2018
Financial liabilities held for trading			
Precious metal contracts		**14,147**	17,188
Financial liabilities designated at fair value through profit or loss			
Principal guaranteed wealth management products	(1)	**312,975**	265,715
Overseas debt securities		**3,505**	3,400
Subtotal		**316,480**	269,115
Total		**330,627**	286,303

(1) The Group designates WMPs with principal guaranteed by the Group as financial liabilities at fair value through profit or loss. The corresponding investments are designated as financial assets at fair value through profit or loss. As at 31 December 2019 and 31 December 2018, the difference between the fair value of these products issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material.

For the current and prior year, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December 2019	2018
Analyzed by type of collateral:		
Debt securities	**50,895**	156,741
Bills	**1,970**	–
Subtotal	**52,865**	156,741
Accrued interest	**332**	360
Total	**53,197**	157,101

The collateral pledged under repurchase agreement is disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral.

29 DUE TO CUSTOMERS

		As at 31 December 2019	2018
Demand deposits			
Corporate customers		**4,902,237**	4,677,155
Individual customers		**5,659,615**	5,318,511
Time deposits			
Corporate customers		**2,061,676**	1,941,564
Individual customers		**4,960,436**	4,479,483
Pledged deposits	(1)	**250,847**	288,530
Others		**480,403**	440,403
Subtotal		**18,315,214**	17,145,646
Accrued interest		**227,647**	200,644
Total		**18,542,861**	17,346,290

(1) Analyzed by activity to which pledged deposits are related to:

	As at 31 December 2019	2018
Guarantee and letters of guarantee	**68,694**	78,859
Trade finance	**75,808**	92,555
Bank acceptance	**49,904**	52,055
Letters of credit	**17,571**	12,463
Others	**38,870**	52,598
Total	**250,847**	288,530

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED

		As at 31 December 2019	2018
Bonds issued	(1)	**349,978**	282,880
Certificates of deposit issued	(2)	**267,307**	240,897
Other debt securities issued	(3)	**482,345**	251,253
Subtotal		**1,099,630**	775,030
Interest payable		**8,582**	5,643
Total		**1,108,212**	780,673

As at 31 December 2019 and 31 December 2018, there was no default related to any debt securities issued by the Group.

(1) The carrying value of the Group's bonds issued are as follows:

		As at 31 December 2019	2018
2.75% USD fixed rate Green Bonds maturing in October 2020	(i)	**3,488**	3,432
4.0% subordinated fixed rate bonds maturing in May 2024	(ii)	**–**	25,000
5.3% subordinated fixed rate bonds maturing in June 2026	(iii)	**50,000**	50,000
4.99% subordinated fixed rate bonds maturing in December 2027	(iv)	**50,000**	50,000
5.8% Tier-two capital fixed rate bonds maturing in August 2024	(v)	**–**	30,000
4.45% Tier-two capital fixed rate bonds maturing in October 2027	(vi)	**40,000**	40,000
4.45% Tier-two capital fixed rate bonds maturing in April 2028	(vii)	**40,000**	40,000
4.28% Tier-two capital fixed rate bonds maturing in March 2029	(viii)	**50,000**	–
4.3% Tier-two capital fixed rate bonds maturing in April 2029	(ix)	**40,000**	–
4.53% Tier-two capital fixed rate bonds maturing in March 2034	(x)	**10,000**	–
4.63% Tier-two capital fixed rate bonds maturing in April 2034	(xi)	**20,000**	–
Medium term notes issued	(xii)	**35,458**	41,070
3.68% CNY fixed rate Green Bonds maturing in June 2022	(xiii)	**3,000**	–
3.3% fixed rate financial bond maturing in September 2022	(xiv)	**2,890**	–
3.4% fixed rate financial bond maturing in September 2024	(xv)	**1,880**	–
5.55% fixed rate capital replenishment bond maturing in March 2028	(xvi)	**3,500**	3,500
Total nominal value		**350,216**	283,002
Less: Unamortized issuance cost and discounts		**(238)**	(122)
Total		**349,978**	282,880

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) *The USD green bonds issued in London in October 2015 have a tenor of 5 years, with a fixed coupon rate 2.75%, payable semi-annually.*

(ii) *The subordinated fixed rate bonds issued in May 2009 have a tenor of 15 years, with a fixed coupon rate of 4.0%, payable annually. As at 20 May 2019, the Bank has redeemed all of the bonds at face value.*

(iii) *The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 6 June 2021. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.3% per annum from 7 June 2021 onwards.*

(iv) *The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 19 December 2022. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.*

(v) *The Tier-two capital bonds issued in August 2014 have a tenor of 10 years, with a fixed coupon rate of 5.8% payable annually. As at 19 August 2019, the Bank has redeemed all of the bonds at face value.*

(vi) *The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 October 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 October 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.*

(vii) *The Tier-two capital bonds issued in April 2018 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 26 April 2023 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 27 April 2023 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.*

(viii) *The Tier-two capital bonds issued in March 2019 have a tenor of 10 years, with a fixed coupon rate of 4.28% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.28% per annum from 19 March 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.*

(ix) *The Tier-two capital bonds issued in April 2019 have a tenor of 10 years, with a fixed coupon rate of 4.3% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2024 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.3% per annum from 11 April 2024 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

(x) The Tier-two capital bonds issued in March 2019 have a tenor of 15 years, with a fixed coupon rate of 4.53%payable annually. The Bank has an option to redeem part or all of the bonds at face value on 18 March 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.53% per annum from 19 March 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xi) The Tier-two capital bonds issued in April 2019 have a tenor of 15 years, with a fixed coupon rate of 4.63% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 10 April 2029 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.63% per annum from 11 April 2029 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

(xii) The medium term notes ("MTNs") were issued by the Domestic and Overseas Operations of the Group and are measured at amortized cost. The face value details of medium term notes issued were as follows:

	As at 31 December 2019		
	Maturity dates ranging from	Coupon rates (%)	Outstanding balance
Fixed rate RMB MTNs	March 2021 to August 2021	4.7-4.8	3,600
Fixed rate HKD MTNs	August 2020 to January 2021	2.18-2.52	807
Floating rate HKD MTNs	September 2020 to September 2021	3 months Hibor+70bps	358
Fixed rate USD MTNs	September 2020 to September 2021	2.50-3.88	9,069
Floating rate USD MTNs	February 2020 to November 2023	3 months Libor+68 to 85bps	21,624
Total			35,458

	As at 31 December 2018		
	Maturity dates ranging from	Coupon rates (%)	Outstanding balance
Fixed rate RMB MTNs	August 2019 to March 2021	3.8-4.8	3,315
Fixed rate EUR MTNs	January 2019	–	784
Fixed rate HKD MTNs	March 2019 to January 2021	2.18-2.52	1,489
Floating rate HKD MTNs	September 2020	3-month HKD HIBOR plus 0.70	350
Fixed rate USD MTNs	January 2019 to September 2021	1.88-3.88	15,620
Floating rate USD MTNs	March 2019 to November 2023	3-month USD LIBOR plus 0.40 to 0.80	19,512
Total			41,070

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 DEBT SECURITIES ISSUED (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

(xiii) The CNY green bonds issued in June 2019 have a tenor of 3 years, with a fixed coupon rate 3.68%, payable annually.

(xiv) The fixed rate Financial bonds issued by ABC Financial Assets Investment Co. Ltd in September 2019 have a tenor of 3 years, with a fixed coupon rate of 3.3%,payable annually.

(xv) The fixed rate Financial bonds issued by ABC Financial Assets Investment Co. Ltd in September 2019 have a tenor of 5 years, with a fixed coupon rate of 3.4%, payable anuually.

(xvi) The fixed rate Capital replenishment debt issued by ABC Life Insurance in March 2018 have a tenor of 10 years, with a fixed coupon rate of 5.55%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 4 March 2023. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 6.55% per annum from 5 March 2023 onwards.

(2) As at 31 December 2019, the certificates of deposit were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the certificates of deposit ranged from one month to seven years, with interest rates ranging from -0.23% to 3.66%. As at 31 December 2018, the terms of the certificates of deposit ranged from two months to seven years with interest rates ranging from 0% to 4.60% per annum.

(3) Other debt securities issued by the Group and bank

(i) As at 31 December 2019, the commercial papers were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the commercial papers ranged from three months to one year, with interest rates ranging from -0.22% to 2.85%. As at 31 December 2018, the terms of the commercial papers ranged from two month to one year, with interest rates ranging from 0% to 3.22% per annum.

(ii) As at 31 December 2019, the interbank certificate of deposit were issued by the Bank's Head Office. The term f the interbank certificate of deposit ranged from one month to one year, with interest rates ranging from 2.7% to 3.24%. As at 31 December 2018, the terms of the interbank certificates of deposit ranged from three months to one year, with interest rates ranging from 3.20% to 4.40% per annum.

31 OTHER LIABILITIES

		As at 31 December	
		2019	2018
Clearing and settlement		**105,682**	53,578
Insurance liabilities		**73,588**	68,351
Income taxes payable		**59,286**	49,248
Staff costs payable	(1)	**50,471**	45,285
Provision	(2)	**30,558**	25,883
Lease liabilities		**10,280**	NA
VAT and other taxes payable		**8,541**	7,568
Dormant accounts		**4,579**	4,249
Amount payable to the MOF		**561**	1,567
Interest payable		**114**	238
Others		**72,093**	62,599
Total		**415,753**	318,566

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(1) Staff costs payable

		As at 31 December 2019	2018
Short-term employee benefits	(i)	**43,130**	39,698
Defined contribution benefits	(ii)	**5,208**	2,704
Early retirement benefits	(iii)	**2,133**	2,883
Total		**50,471**	45,285

(i) Short-term employee benefits

		2019 1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	**29,559**	**79,835**	**(78,047)**	**31,347**
Housing funds	(a)	**186**	**8,524**	**(8,526)**	**184**
Social insurance including:	(a)	**255**	**5,450**	**(5,373)**	**332**
— Medical insurance		**235**	**4,902**	**(4,826)**	**311**
— Maternity insurance		**13**	**407**	**(407)**	**13**
— Employment injury insurance		**7**	**141**	**(140)**	**8**
Labor union fees and staff education expenses		**6,206**	**3,534**	**(2,691)**	**7,049**
Others		**3,492**	**9,464**	**(8,738)**	**4,218**
Total		**39,698**	**106,807**	**(103,375)**	**43,130**

		2018 1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	26,829	75,976	(73,246)	29,559
Housing funds	(a)	157	8,328	(8,299)	186
Social insurance including:	(a)	171	5,371	(5,287)	255
— Medical insurance		159	4,829	(4,753)	235
— Maternity insurance		7	381	(375)	13
— Employment injury insurance		5	161	(159)	7
Labor union fees and staff education expenses		5,344	3,365	(2,503)	6,206
Others		3,393	12,469	(12,370)	3,492
Total		35,894	105,509	(101,705)	39,698

(a) Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(1) *Staff costs payable* *(Continued)*

(ii) *Defined contribution benefits*

	2019			
	1 January	**Increase**	**Decrease**	**31 December**
Basic pensions	**518**	**10,825**	**(10,891)**	**452**
Unemployment insurance	**31**	**349**	**(346)**	**34**
Annuity Scheme	**2,155**	**6,225**	**(3,658)**	**4,722**
Total	**2,704**	**17,399**	**(14,895)**	**5,208**

	2018			
	1 January	Increase	Decrease	31 December
Basic pensions	527	11,808	(11,817)	518
Unemployment insurance	32	319	(320)	31
Annuity Scheme	7	5,721	(3,573)	2,155
Total	566	17,848	(15,710)	2,704

The defined contribution benefits are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(iii) *Early retirement benefits*

	2019			
	1 January	**Increase**	**Decrease**	**31 December**
Early retirement benefits	**2,883**	**61**	**(811)**	**2,133**

	2018			
	1 January	Increase	Decrease	31 December
Early retirement benefits	3,762	257	(1,136)	2,883

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at 31 December	
	2019	2018
Discount rate	**2.80%**	3.00%
Annual average medical expense growth rate	**8.00%**	8.00%
Annual subsidies growth rate	**8.00%**	8.00%
Normal retirement age		
— Male	**60**	60
— Female	**55**	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (year 2010–2013) (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 OTHER LIABILITIES (Continued)

(2) Provision

		As at 31 December **2019**	2018
Loan commitments and financial guarantee contracts	(i)	**25,213**	20,523
Litigation provision		**4,490**	4,438
Others		**855**	922
Total		**30,558**	25,883

(i) Analyzed by movements in loss allowance for loan commitments and financial guarantee contracts

		Year ended 31 December 2019 Stage I 12m ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	**Total**
31 December 2018		**17,797**	**2,006**	**720**	**20,523**
Transfer:					
stage I transfer to stage II		**(1,072)**	**1,072**	**–**	**–**
stage II transfer to stage III		**–**	**(319)**	**319**	**–**
stage II transfer to stage I		**13**	**(13)**	**–**	**–**
Increase	(a)	**14,751**	**–**	**–**	**14,751**
Remeasurement		**(116)**	**(76)**	**26**	**(166)**
Decrease	(a)	**(8,537)**	**(638)**	**(720)**	**(9,895)**
31 December 2019		**22,836**	**2,032**	**345**	**25,213**

		Year ended 31 December 2018 Stage I 12m ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
1 January 2018		17,204	1,519	175	18,898
Transfer:					
stage I transfer to stage II		(1,209)	1,209	–	–
stage II transfer to stage III		–	(728)	728	–
stage II transfer to stage I		21	(21)	–	–
Increase	(a)	9,373	1,013	–	10,386
Remeasurement		(313)	54	(9)	(268)
Decrease	(a)	(7,279)	(1,040)	(174)	(8,493)
31 December 2018		17,797	2,006	720	20,523

(a) The impact of loss allowance driven by new loan commitments and financial guarantee contracts signed in 2019 and 2018 is disclosed as "Increase". The impact of loss allowance driven by withdrawals, advances or expiration of loan commitments and financial guarantee contracts in 2019 and 2018 are disclosed as "Decrease". The changes of loss allowance for loan commitments and financial guarantee contracts are mainly driven by the net increase in the exposure of loan commitments and financial guarantee contracts.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 ORDINARY SHARES

	31 December 2019 Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	**319,244**	**319,244**
Overseas listed H shares, par value RMB1.00 per share	**30,739**	**30,739**
Total	**349,983**	**349,983**

	31 December 2018 Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	319,244	319,244
Overseas listed H shares, par value RMB1.00 per share	30,739	30,739
Total	349,983	349,983

(1) A shares refer to the ordinary shares listed in the Mainland China. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.

(2) The Bank has received the Approval on Private Placement of Agricultural Bank of China Limited on A shares (Yin Bao Jian Approval No. [2018] 28) from CBIRC and the Approval Regarding the Private Placement of Agricultural Bank of China Limited (Zheng Jian Approval No. [2018] 936) from the China Securities Regulatory Commission, which approved the Bank's private placement of A-share ordinary shares. In June 2018, the Bank issued 25.19 billion A shares to specific investors with issuance price of RMB3.97 per share. The gross carrying amount of proceeds from the fund-raising was RMB100 billion. The net proceeds from the fund-raising after deducting issuance cost and related taxes was RMB99.97 billion, of which RMB25.19 billion was recorded in share capital and RMB74.78 billion was recorded in capital reserve. The lock-up period for the shares subscribed will last for three or five years respectively.

PricewaterhouseCoopers Zhong Tian LLP has verified the foresaid non-public offering and issued the capital verification report PricewaterhouseCoopers Zhong Tian Yan Zi (2018) No.0411 for the above shares issued.

(3) As at 31 December 2019 and 31 December 2018, the Bank's A Shares and H Shares were not subject to lock-up restriction, except for the 25.19 billion ordinary shares issued through a private placement in June 2018.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS

Financial instruments in issue	Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversions
Preference shares -first tranche(1)	6% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Preference shares -second tranche(1)	5.5% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Undated Tier 1 Capital Bonds -series 1(2)	4.39% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	850	85,000	No maturity date	No conversion during the year
Undated Tier 1 Capital Bonds -series 2(2)	4.20% per annum for the first 5 years after issuance, and reset every 5 years as stated below	100	350	35,000	No maturity date	No conversion during the year

(1) The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares was issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 31 December 2019. The first tranche of preference shares bears a dividend rate of 6% per annum; dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The 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 2.29%. The first five-year dividend period expired from 1 November 2019. During the second dividend period beginning from 5 November 2019, the base rate and fixed premium is 3.03% and 2.29%, respectively, and the coupon rate is 5.32%. The dividend is paid annually.

The second tranche of 400 million preference shares was issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 31 December 2019. The second tranche of preference shares bears a dividend rate of 5.5% per annum; dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The 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 2.24%. The first five-year dividend period expired from 6 March 2020. During the second dividend period beginning from 11 March 2020, the base rate and fixed premium is 2.60% and 2.24%, respectively, and the coupon rate is 4.84%. The dividend is paid annually.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the 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 equity holders 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 a redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

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 agreed, partially or entirely. The initial conversion price of the preference shares issued by the Bank was RMB2.43 per share. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders. In June 2018, the Bank issued 25.19 billion ordinary A shares to specific investors. Upon completion of the private placement of ordinary shares by the Bank, the mandatory conversion price of the preference shares issued by the Bank will be adjusted from RMB2.43 per share to RMB2.46 per share.

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.

(2) With the authorization of the annual general meeting and the approval from regulatory authorities, the Bank was granted to issue undated additional tier 1 capital bonds ("Perpetual bonds" or the "Bonds") of an amount no more than RMB120 billion.

The Bank issued undated additional tier 1 capital bonds (first tranche) with the amount of RMB85 billion in the national interbank bond market on 16 August 2019, and the issuance was completed on 20 August 2019. The denomination of the Bonds is RMB100 each.The Bonds don't have any step-up mechanism or any other incentive to redeem.The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread,with a distribution rate adjustment period every 5 years,and the annual coupon rate for the first five years is 4.39%.

The Bank issued undated additional tier 1 capital bonds (second tranche) with the amount of RMB35 billion in the national interbank bond market on 3 September 2019, and the issuance was completed on 5 September 2019. The denomination of the Bonds is RMB100 each. The Bonds don't have any step-up mechanism or any other incentive to redeem.The distribution rate of the Bonds will be adjusted at defined intervals and determined by a benchmark rate plus a fixed spread, with a distribution rate adjustment period every 5 years,and the annual coupon rate for the first five years is 4.20%.

The carrying amount,net of direct issuance expenses, was RMB119,987million as at 31 December 2019.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 OTHER EQUITY INSTRUMENTS (Continued)

The duration of the Perpetual 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 from the fifth anniversary since the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the approval of the CBIRC and without the need for the consent of the holders of the Bonds, the Bank has the right to write down all or part of the aggregate amount of the Bonds then issued and outstanding. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated indebtedness that ranks senior to the Bonds; and shall rank in priority to all classes of shares held by shareholders and will rank pari passu with the claims in respect of any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The distributions on the Perpetual bonds are non-cumulative. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and any such cancellation shall not constitute an event of default. The Bank may at its discretion use the proceeds from the cancelled distribution to meet other obligations as they fall due. But the Bank shall not make any distribution to ordinary shareholders until its decision to resume the distribution payments in whole to the holders of the Bonds.

The net proceeds from the issuance of the Perpetual bonds after deducting offering related expenses were used to replenish the Bank's additional tier 1 capital.

34 CAPITAL RESERVE

The capital reserve represents the premium related to ordinary shares issued by the Bank in 2010 and private placement of ordinary shares to the specific stakeholders in 2018. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 INVESTMENT REVALUATION RESERVE

	2019		
	Gross carrying amount	**Tax effect**	**Net effect**
31 December 2018	**24,996**	**(6,004)**	**18,992**
Fair value changes on debt instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**14,921**	**(4,196)**	**10,725**
— Amount removed from other comprehensive income and recognized in profit or loss	**(425)**	**107**	**(318)**
Fair value changes on equity instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	**383**	**(98)**	**285**
31 December 2019	**39,875**	**(10,191)**	**29,684**

	2018		
	Gross carrying amount	Tax effect	Net effect
31 December 2017	(26,135)	6,445	(19,690)
Change in accounting policy	13,003	(3,112)	9,891
1 January 2018	(13,132)	3,333	(9,799)
Fair value changes on debt instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	38,212	(9,358)	28,854
— Amount removed from other comprehensive income and recognized in profit or loss	(280)	70	(210)
Fair value changes on equity instruments at fair value through other comprehensive income:			
— Amount of gains recognized directly in other comprehensive income	196	(49)	147
31 December 2018	24,996	(6,004)	18,992

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 SURPLUS RESERVE

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Pursuant to the resolution of the Board of Directors' Meeting held on 30 March 2020, an appropriation of 10% of the profit for the current year, determined under the generally accepted accounting principles of the PRC, to the statutory surplus reserve, in the amount of RMB20,623 million (2018: RMB19,867million) was approved. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

37 GENERAL RESERVE

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

During the year ended 31 December 2019, the Group transferred RMB37,826 million (2018: RMB8,440 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB37,626 million (2018: RMB8,380 million) related to the appropriation proposed for the year ended 31 December 2018 which was approved in the annual general meeting held on 30 May 2019.

On 30 March 2020, the Board of Directors' meeting approved a proposal of appropriation of RMB34,211 million to general reserve. Such appropriation will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	As at 31 December	
	2019	2018
Cash	**92,928**	98,089
Balance with central banks	**401,632**	230,450
Deposits with banks and other financial institutions	**105,571**	78,352
Placements with and loans to banks and other financial institutions	**150,495**	221,495
Financial assets held under resale agreements	**703,955**	350,055
Total	**1,454,581**	978,441

39 OPERATING SEGMENTS

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the consolidated financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2019										
External interest income	288,227	128,729	89,900	83,229	87,164	129,921	21,197	30,774	–	859,141
External interest expense	(55,547)	(78,563)	(38,991)	(56,914)	(48,692)	(55,322)	(16,407)	(21,834)	–	(372,270)
Inter-segment interest (expense)/income	(220,171)	50,152	25,699	50,389	41,859	39,850	14,201	(1,979)	–	–
Net interest income	12,509	100,318	76,608	76,704	80,331	114,449	18,991	6,961	–	486,871
Fee and commission income	27,771	17,384	14,912	11,863	11,600	15,990	2,808	683	–	103,011
Fee and commission expense	(3,477)	(2,857)	(2,491)	(2,239)	(1,962)	(2,424)	(472)	(163)	–	(16,085)
Net fee and commission income	24,294	14,527	12,421	9,624	9,638	13,566	2,336	520	–	86,926
Net trading gain/(loss)	10,446	87	27	44	(15)	10	(147)	8,615	–	19,067
Net gain/(loss) on financial investments	6,137	40	13	(932)	(54)	(23)	–	612	–	5,793
Other operating income	25	2,113	963	643	560	1,340	140	24,909	–	30,693
Operating income	53,411	117,085	90,032	86,083	90,460	129,342	21,320	41,617	–	629,350
Operating expenses	(15,107)	(32,858)	(24,373)	(29,007)	(32,881)	(47,267)	(13,679)	(28,924)	–	(224,096)
Credit impairment losses	(2,442)	(29,378)	(23,434)	(28,367)	(17,636)	(28,116)	(6,650)	(2,582)	–	(138,605)
Impairment losses on other assets	(69)	14	76	11	1	(107)	(78)	34	–	(118)
Operating profit	35,793	54,863	42,301	28,720	39,944	53,852	913	10,145	–	266,531
Share of results of associates and joint ventures	10	–	–	–	–	–	–	35	–	45
Profit before tax	35,803	54,863	42,301	28,720	39,944	53,852	913	10,180	–	266,576
Income tax expense										(53,652)
Profit for the year										212,924
Depreciation and amortization included in operating expenses	1,324	3,078	2,542	3,037	3,029	4,075	1,185	441	–	18,711
Capital expenditure	1,867	1,763	12,008	1,684	2,397	4,091	884	2,786	–	27,480
As at 31 December 2019										
Segment assets	6,353,747	5,027,379	3,080,744	4,298,377	3,563,117	4,854,981	1,041,998	1,187,051	(4,650,058)	24,757,336
Including: Investment in associates and joint ventures	207	–	–	–	–	–	–	6,465	–	6,672
Unallocated assets										120,952
Total assets										24,878,288
Include: non-current assets (1)	11,592	32,067	19,404	29,526	28,042	42,169	11,477	24,704	–	198,981
Segment liabilities	(4,411,873)	(5,050,321)	(3,089,694)	(4,326,673)	(3,570,834)	(4,873,445)	(1,052,174)	(1,133,764)	4,650,058	(22,858,720)
Unallocated liabilities										(59,806)
Total liabilities										(22,918,526)
Loan commitments and financial guarantee contracts	40,267	641,332	400,516	441,065	340,859	396,394	72,520	77,075	–	2,410,028

(1) *Non-current assets include property and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other long-term assets.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2018										
External interest income	277,633	114,128	77,565	76,222	75,067	115,740	19,649	28,720	–	784,724
External interest expense	(51,458)	(60,785)	(32,523)	(46,921)	(39,110)	(45,169)	(13,004)	(17,994)	–	(306,964)
Inter-segment interest (expense)/income	(207,818)	43,613	26,581	47,630	40,297	40,271	12,316	(2,890)	–	–
Net interest income	18,357	96,956	71,623	76,931	76,254	110,842	18,961	7,836	–	477,760
Fee and commission income	24,175	16,271	13,087	10,020	10,144	14,088	2,514	1,226	–	91,525
Fee and commission expense	(2,868)	(2,921)	(1,635)	(1,534)	(1,585)	(2,130)	(406)	(305)	–	(13,384)
Net fee and commission income	21,307	13,350	11,452	8,486	8,559	11,958	2,108	921	–	78,141
Net trading gain/(loss)	15,439	(188)	(242)	(261)	(133)	(1,606)	(1,094)	4,154	–	16,069
Net gain/(loss) on financial investments	9,158	(82)	49	(4)	(5)	(10)	–	(646)	–	8,460
Net gain on derecognition of financial assets measured at amortized cost	30	–	–	–	–	–	–	–	–	30
Other operating (expense)/income	(4,616)	1,882	1,173	974	688	1,702	423	19,871	–	22,097
Operating income	59,675	111,918	84,055	86,126	85,363	122,886	20,398	32,136	–	602,557
Operating expenses	(18,453)	(31,046)	(23,218)	(27,681)	(31,651)	(45,244)	(13,449)	(23,221)	–	(213,963)
Credit impairment losses	(4,459)	(18,681)	(11,336)	(36,790)	(23,753)	(32,671)	(6,213)	(2,744)	–	(136,647)
Impairment losses on other assets	–	14	(62)	(8)	(64)	(76)	(55)	–	–	(251)
Operating profit	36,763	62,205	49,439	21,647	29,895	44,895	681	6,171	–	251,696
Share of results of associates and joint ventures	9	–	–	–	–	–	–	(31)	–	(22)
Profit before tax	36,772	62,205	49,439	21,647	29,895	44,895	681	6,140	–	251,674
Income tax expense										(49,043)
Profit for the year										202,631
Depreciation and amortization included in operating expenses	1,361	2,496	1,873	2,602	2,864	3,823	1,149	245	–	16,413
Capital expenditure	959	2,826	2,118	1,907	2,559	3,409	1,017	2,305	–	17,100
As at 31 December 2018										
Segment assets	5,322,502	4,760,141	2,823,835	3,956,866	3,297,149	4,550,800	966,852	1,005,244	(4,187,211)	22,496,178
Including: Investment in associates and joint ventures	236	–	–	–	–	–	–	3,769	–	4,005
Unallocated assets										113,293
Total assets										22,609,471
Include: non-current assets (2)	11,327	31,152	17,018	28,137	27,154	40,804	11,289	18,028	–	184,909
Segment liabilities	(3,676,865)	(4,763,609)	(2,819,997)	(3,987,753)	(3,306,792)	(4,567,877)	(978,231)	(971,384)	4,187,211	(20,885,297)
Unallocated liabilities										(49,387)
Total liabilities										(20,934,684)
Loan commitments and financial guarantee contracts	39,120	529,584	324,158	359,054	297,915	304,479	76,623	79,872	–	2,010,805

(2) *Non-current assets include property and equipment, investment properties, land use rights, intangible assets and other long-term assets.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

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.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2019					
External interest income	340,666	227,426	285,030	6,019	859,141
External interest expense	(113,620)	(187,154)	(68,698)	(2,798)	(372,270)
Inter-segment interest (expense)/income	(3,204)	159,498	(156,294)	–	–
Net interest income	223,842	199,770	60,038	3,221	486,871
Fee and commission income	53,640	47,467	152	1,752	103,011
Fee and commission expense	(7,652)	(8,376)	(2)	(55)	(16,085)
Net fee and commission income	45,988	39,091	150	1,697	86,926
Net trading gain	–	–	11,570	7,497	19,067
Net gain/(loss) on financial investments	424	(445)	4,438	1,376	5,793
Other operating income	1,465	1,547	2,918	24,763	30,693
Operating income	271,719	239,963	79,114	38,554	629,350
Operating expenses	(74,492)	(97,241)	(24,792)	(27,571)	(224,096)
Credit impairment losses	(86,174)	(49,699)	(1,407)	(1,325)	(138,605)
Impairment losses on other assets	(131)	53	(4)	(36)	(118)
Operating profit	110,922	93,076	52,911	9,622	266,531
Share of results of associates and joint ventures	–	–	–	45	45
Profit before tax	110,922	93,076	52,911	9,667	266,576
Income tax expense					(53,652)
Profit for the year					212,924
Depreciation and amortization included in operating expenses	4,340	10,641	3,361	369	18,711
Capital expenditure	5,042	14,667	5,134	2,637	27,480
At 31 December 2019					
Segment assets	7,711,316	5,826,636	10,771,924	447,460	24,757,336
Including: Investment in associates and joint ventures	–	–	–	6,672	6,672
Unallocated assets					120,952
Total assets					24,878,288
Segment liabilities	(8,026,739)	(11,880,991)	(2,701,678)	(249,312)	(22,858,720)
Unallocated liabilities					(59,806)
Total liabilities					(22,918,526)
Loan commitments and financial guarantee contracts	1,565,535	844,493	–	–	2,410,028

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

***Business operating segments** (Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2018					
External interest income	314,901	191,918	272,138	5,767	784,724
External interest expense	(92,866)	(153,206)	(58,026)	(2,866)	(306,964)
Inter-segment interest Income/(expense)	8,665	158,924	(167,589)	–	–
Net interest income	230,700	197,636	46,523	2,901	477,760
Fee and commission income	47,828	41,797	13	1,887	91,525
Fee and commission expense	(5,730)	(7,608)	(3)	(43)	(13,384)
Net fee and commission income	42,098	34,189	10	1,844	78,141
Net trading gain	–	–	11,283	4,786	16,069
Net (loss)/gain on financial investments	(63)	461	7,874	188	8,460
Net gain on derecognition of financial assets measured at amortized cost	–	–	30	–	30
Other operating income/(expense)	1,923	1,515	(92)	18,751	22,097
Operating income	274,658	233,801	65,628	28,470	602,557
Operating expenses	(75,164)	(93,304)	(23,481)	(22,014)	(213,963)
Credit impairment losses	(106,947)	(26,542)	(3,253)	95	(136,647)
Impairment losses on other assets	(224)	(25)	(2)	–	(251)
Operating profit	92,323	113,930	38,892	6,551	251,696
Share of results of associates and joint ventures	–	–	–	(22)	(22)
Profit before tax	92,323	113,930	38,892	6,529	251,674
Income tax expense					(49,043)
Profit for the year					202,631
Depreciation and amortization included in operating expenses	3,742	9,422	3,062	187	16,413
Capital expenditure	3,480	10,068	3,552	–	17,100
At 31 December 2018					
Segment assets	7,034,426	5,051,815	10,086,338	323,599	22,496,178
Including: Investment in associates and joint ventures	–	–	–	4,005	4,005
Unallocated assets					113,293
Total assets					22,609,471
Segment liabilities	(7,829,685)	(10,800,316)	(2,077,681)	(177,615)	(20,885,297)
Unallocated liabilities					(49,387)
Total liabilities					(20,934,684)
Loan commitments and financial guarantee contracts	1,338,766	672,039	–	–	2,010,805

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

***Urban Area banking business** (Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2019				
External interest income	199,258	659,883	–	859,141
External interest expense	(116,959)	(255,311)	–	(372,270)
Inter-segment interest income/(expense)	115,125	(115,125)	–	–
Net interest income	197,424	289,447	–	486,871
Fee and commission income	40,907	62,104	–	103,011
Fee and commission expense	(6,315)	(9,770)	–	(16,085)
Net fee and commission income	34,592	52,334	–	86,926
Net trading gain	632	18,435	–	19,067
Net (loss)/gain on financial investments	(5)	5,798	–	5,793
Other operating income	4,097	26,596	–	30,693
Operating income	236,740	392,610	–	629,350
Operating expenses	(90,654)	(133,442)	–	(224,096)
Credit impairment losses	(48,228)	(90,377)	–	(138,605)
Impairment losses on other assets	(86)	(32)	–	(118)
Operating profit	97,772	168,759	–	266,531
Share of results of associates and joint ventures	–	45	–	45
Profit before tax	97,772	168,804	–	266,576
Income tax expense				(53,652)
Profit for the year				212,924
Depreciation and amortization included in operating expenses	7,533	11,178	–	18,711
Capital expenditure	6,716	20,764	–	27,480
At 31 December 2019				
Segment assets	8,699,905	16,172,309	(114,878)	24,757,336
Including: Investment in associates and joint ventures	–	6,672	–	6,672
Unallocated assets				120,952
Total assets				24,878,288
Segment liabilities	(8,085,616)	(14,887,982)	114,878	(22,858,720)
Unallocated liabilities				(59,806)
Total liabilities				(22,918,526)
Loan commitments and financial guarantee contracts	729,244	1,680,784	–	2,410,028

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 OPERATING SEGMENTS (Continued)

***County Area and Urban Area segments** (Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2018				
External interest income	175,438	609,286	–	784,724
External interest expense	(93,223)	(213,741)	–	(306,964)
Inter-segment interest income/(expense)	111,567	(111,567)	–	–
Net interest income	193,782	283,978	–	477,760
Fee and commission income	35,222	56,303	–	91,525
Fee and commission expense	(4,817)	(8,567)	–	(13,384)
Net fee and commission income	30,405	47,736	–	78,141
Net trading (loss)/gain	(267)	16,336	–	16,069
Net gain on financial investments	5	8,455	–	8,460
Net gain on derecognition of financial assets measured at amortized cost	–	30	–	30
Other operating income	4,515	17,582	–	22,097
Operating income	228,440	374,117	–	602,557
Operating expenses	(86,542)	(127,421)	–	(213,963)
Credit impairment losses	(72,661)	(63,986)	–	(136,647)
Impairment losses on other assets	(137)	(114)	–	(251)
Operating profit	69,100	182,596	–	251,696
Share of results of associates and joint ventures	–	(22)	–	(22)
Profit before tax	69,100	182,574	–	251,674
Income tax expense				(49,043)
Profit for the year				202,631
Depreciation and amortization included in operating expenses	7,494	8,919	–	16,413
Capital expenditure	4,123	12,977	–	17,100
At 31 December 2018				
Segment assets	8,067,374	14,537,570	(108,766)	22,496,178
Including: Investment in associates and joint ventures	–	4,005	–	4,005
Unallocated assets				113,293
Total assets				22,609,471
Segment liabilities	(7,553,604)	(13,440,459)	108,766	(20,885,297)
Unallocated liabilities				(49,387)
Total liabilities				(20,934,684)
Loan commitments and financial guarantee contracts	569,419	1,441,386	–	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS

(1) *The Group and the MOF*

As at 31 December 2019, the MOF directly owned 35.29% (31 December 2018: 39.21%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditure, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

On 25 September 2019, the Ministry of Finance transferred its 3.92% of the Bank's common stock equity to the National Council for Social Security Fund of the People's Republic of China for a one-time transfer. As of December 31, 2019, the Bank's shares held by the National Council for Social Security Fund of the People's Republic of China accounted for 6.95% of the Bank's total share capital. The daily business transactions between the Group and the Social Security Fund Fund Council are conducted on normal commercial terms.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2019	2018
Assets		
Treasury bonds and special government bond	**643,568**	655,946
Receivable from the MOF	**307,723**	298,734
Other accounts receivable	**1,004**	9,444
Liabilities		
Amount payable to the MOF	**520**	1,487
Customer deposits	**7,772**	13,250
Other liability		
— redemption of treasury bonds on behalf of the MOF	**4**	41
— amount payable to the MOF	**41**	80

	Year ended 31 December	
	2019	2018
Interest income	**30,195**	38,180
Interest expense	**(253)**	(410)
Fee and commission income	**1,552**	3,096
Gain/(loss) on financial investment	**162**	174

Interest rate ranges for transactions with the MOF during the year are as follows:

	Year ended 31 December	
	2019	2018
	%	%
Treasury bonds and receivable from the MOF	**0.13–9.00**	2.25–9.00
Customer deposits	**0.00–3.41**	0.00–3.37

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note IV 42 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 31 December 2019, Huijin directly owned 40.03% (31 December 2018: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2019	2018
Assets		
Loans and advances to customers	**22,024**	28,034
Financial investment	**68,455**	37,438
Liabilities		
Due to customers	**1,862**	12,063

	Year ended 31 December	
	2019	2018
Interest income	**2,314**	2,295
Interest expense	**(270)**	(225)
Gain/(loss) on financial investment	**65**	19

Interest rate ranges for transactions with Huijin during the year are as follows:

	Year ended 31 December	
	2019	2018
	%	%
Loans and advances to customers	**3.92–4.35**	3.92–4.35
Financial investment	**2.84–5.15**	2.75–5.15
Principal guaranteed wealth management products issued by the Bank	**–**	4.37–4.41
Due to customers	**1.38–2.25**	1.38-2.18

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(2) *The Group and Huijin* *(Continued)*

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

	As at 31 December	
	2019	2018
Assets		
Deposits with banks and other financial institutions	**63,637**	31,990
Placements with and loans to banks and other financial institutions	**61,520**	51,809
Derivative financial assets	**4,360**	3,866
Financial assets held under resale agreements	**94,067**	24,205
Loans and advances to customers	**53,117**	59,338
Financial investment	**768,800**	785,135
Liabilities		
Deposits from banks and other financial institutions	**157,640**	91,880
Placements from banks and other financial institutions	**94,756**	83,786
Derivative financial liabilities	**5,518**	7,920
Financial assets sold under repurchase agreements	**1,309**	360
Due to customers	**1,438**	–
Equity		
Other equity instruments	**2,000**	2,000
Off-balance sheet items		
Non-principal guaranteed wealth management products issued by the Bank	**5,002**	1,556

(3) *The Group and other government related entities*

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(4) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business under normal commercial terms:

	As at 31 December 2019	2018
Assets		
Placements with and loans to banks and other financial institutions	**88,805**	29,761
Financial assets held under resale agreements	**–**	3,008
Financial investment	**2,709**	2,370
Loans and advances to customers	**–**	1,022
Other assets	**21**	711
Liabilities		
Deposits from banks and other financial institutions	**10,895**	4,039
Placements from banks and other financial institutions	**–**	63
Due to customers	**950**	3,208
Other liabilities	**1,040**	721
Off-balance sheet items		
Letters of guarantee issued and guarantees	**12,557**	16,267

	As at 31 December 2019	2018
Interest income	**792**	337
Fee and commission income	**1,506**	1,020
Other operating income	**1**	49
Interest expense	**(253)**	(108)
Operating expense	**(125)**	(151)
Other Operating expense	**(18)**	–
Fee and commission expense	**(268)**	–

	As at 31 December 2019 %	2018 %
Placements with and loans to banks and other financial institutions	**0.53–3.60**	0.50–5.25
Financial assets held under resale agreements	**1.00–4.70**	4.00
Financial investment	**3.30–4.70**	2.38–4.70
Loans and advances to customers	**4.60–4.60**	3.92–4.79
Deposits from banks and other financial institutions	**0.01–3.10**	0.01–3.20
Placements from banks and other financial institutions	**–**	–
Due to customers	**0.30–3.85**	0.30-3.85

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(5) The Group and its associates and joint venture

The Group had the following balances and transactions with its associates and joint venture in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2019	2018
Placements with and loans to banks and other financial institutions	**–**	157

	Year ended 31 December	
	2019	2018
	%	%
Placements with and loans to banks and other financial institutions	**–**	0.01

For the year ended 31 December 2019 and 31 December 2018, transaction profit or loss between the Group and its associates and joint ventures was not significant.

(6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with above related parties in the normal course of business. As at 31 December 2019, the balance of loans and advances to the above related parties is RMB9.54 billion (31 December 2018: RMB8.24 million).

We extended loan and credit card business to related natural persons (as defined in the Administrative Measures on Information Disclosure of Listed Companies issued by the CSRC) in 2019. As at 31 December 2019, the balance of such loan amounted to RMB7.49 million. (31 December 2018: RMB8.54 million).

The remuneration of Directors and other members of key management during the years was as follows:

	Year ended 31 December	
	2019	2018
		(Restated)
Salaries, bonuses and staff welfare	**9.97**	11.54

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for the year ended 31 December 2019 have not been finalized. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group. The final compensation will be disclosed in a separate announcement when determined.

The compensation of key management personnel for the year ended 31 December 2018 was not decided at the time when the Group's 2018 consolidated financial statements were released and the amount of remuneration of Directors and other members of key management recognized in the consolidated income statement for the year of 2018 was RMB8.56 million. Supplementary announcement on final compensation of RMB11.54 million was released by the Bank on 30 August 2019. The comparative figures for the year of 2018 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(7) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	As at 31 December	
	2019	2018
Deposits from Annuity Scheme	**3,196**	3,197

	Year ended 31 December	
	2019	2018
Interest expense	**(157)**	(36)

Interest rate range for transactions with the Annuity Scheme during the year is as follows:

	Year ended 31 December	
	2019	2018
	%	%
Deposits from Annuity Scheme	**0.00–5.00**	0.00-5.00

(8) Proportion of transactions with major related parties

Related party transactions with subsidiaries have been offset in the process of preparing consolidated financial statements. When calculating the proportion of related party transactions, related party transactions do not include related party transactions with subsidiaries.

Transaction Balance

	As at 31 December 2019		As at 31 December 2018	
	Related party transactions	**Proportion**	Related party transactions	Proportion
Deposits from banks and other financial institutions	**63,637**	**26.99%**	31,990	29.15%
Placements with and loans to banks and other financial institutions	**61,520**	**11.76%**	51,809	9.39%
Derivative financial assets	**4,360**	**17.48%**	3,866	10.46%
Financial assets held under resale agreements	**94,067**	**13.28%**	24,205	6.52%
Loans and advances to customers	**75,141**	**0.59%**	87,372	0.76%
Financial investment	**1,788,546**	**24.09%**	1,777,253	25.81%
Other asset	**1,004**	**0.92%**	9,444	13.10%
Deposits from banks and other financial institutions	**157,640**	**10.48%**	91,880	8.17%
Placements from banks and other financial institutions	**94,756**	**29.12%**	83,786	25.74%
Derivative financial liabilities	**5,518**	**18.67%**	7,920	22.92%
Financial assets sold under repurchase agreements	**1,309**	**2.46%**	360	0.23%
Due to customers	**11,072**	**0.06%**	25,313	0.15%
Other liabilities	**565**	**0.21%**	1,608	0.84%
Other equity instruments	**2,000**	**1.00%**	2,000	2.50%

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS (Continued)

(8) *Proportion of transactions with major related parties (Continued)*

Transaction amount

	2019		2018	
	Related party transactions	**Proportion**	Related party transactions	Proportion
Interest income	**32,509**	**3.78%**	40,475	5.16%
Interest expense	**(523)**	**0.14%**	(635)	0.21%
Gain/(loss) on financial investment	**227**	**1.43%**	193	1.08%
Fee and commission income	**1,552**	**1.51%**	3,096	3.38%

41 STRUCTURED ENTITIES

(1) *Consolidated structured entities*

Principal guaranteed WMPs sponsored and managed by the Group

Principal guaranteed WMPs 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 financial assets and financial liabilities designated at fair value through profit or loss, respectively.

Other consolidated structured entities

Other structured entities consolidated by the Group include certain trust investment plans, asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 31 December 2019, the total assets of these consolidated structured entities were RMB464,477 million (31 December 2018: RMB363,248 million).

(2) *Unconsolidated structured entities*

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed WMPs, which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income.

As at 31 December 2019, the total assets invested by these WMPs amounted to RMB1,960,701 million (31 December 2018: RMB1,706,487 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,727,350 million (31 December 2018: RMB1,408,263 million). During the year ended 31 December 2019, the Group's interest in these WMPs included net fee and commission income of RMB4,971 million (2018: RMB4,784 million) and net interest income of RMB574 million (2018: RMB1,664 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 STRUCTURED ENTITIES (Continued)

(2) *Unconsolidated structured entities* (Continued)

Unconsolidated structured entities sponsored and managed by the Group (Continued)

The Group enters into placements and repo transactions at market interest rates with these WMPs. The average balance during 2019 and the outstanding balance as at 31 December 2019 of these transactions were RMB15,810 million (weighted average outstanding period of 5.29 days) (2018: RMB50,893 million and 9.20 days) and RMB116,900 million (31 December 2018: RMB142,914 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2019 and 31 December 2018, the outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the period ended 31 December 2019 and 31 December 2018. The Group was not required to absorb any losses incurred by WMPs. During the period ended 31 December 2019 and 2018, no loss was incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

In addition, other unconsolidated structured entities sponsored and managed by the Group included funds and asset management plans. As at 31 December 2019, the total assets of these products amounted to RMB478,339 million(31 December 2018: RMB684,653 million). During the year ended 31 December 2019, the Group's interest in these products mainly included net fee and commission income of RMB797 million(2018: RMB1,093 million).

Other unconsolidated structured entities held by the Group

The Group invests in other 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 asset management plans, funds and asset-backed securities. As at 31 December 2019, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB73,521 million (31 December 2018: RMB60,663 million), included under the financial assets at fair value through profit or loss, other debt instrument investments at fair value through other comprehensive income and debt instrument investments at amortized cost categories in the consolidated statement of financial position as at 31 December 2019. The information on the size of total assets of these unconsolidated structured entities was not readily available in the public domain.

42 CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings and others

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2019, provisions of RMB4,490 million were made by the Group (31 December 2018: RMB4,438 million) based on court judgments or advice of legal counsel, and included in Note IV 31 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Legal proceedings and others (Continued)

The Bank and its New York Branch are taking affirmative actions to respond to other requirements under these two orders. As at the date of these financial statements, the Group is of the view that it is not practicable to estimate whether there will be any further regulatory actions undertaken by the US regulators as this will be dependent upon the regulatory conclusion after the Bank's and its New York Branch's actions towards the other requirements under these two orders. As such, the Group did not accrue any further provision over this matter as at 31 December 2019.

Capital commitments

	As at 31 December	
	2019	2018
Contracted but not provided for	**2,606**	2,934

In addition, as at 31 December 2019 and 31 December 2018, the Group did not have outstanding equity investment commitments for its investee companies.

Loan commitments and financial guarantee contracts

	As at 31 December	
	2019	2018
Loan commitments		
— With an original maturity of less than 1 year	**149,602**	178,564
— With an original maturity of 1 year or above	**907,194**	728,218
Subtotal	**1,056,796**	906,782
Bank acceptance	**339,829**	242,489
Credit card commitments	**646,134**	538,870
Guarantee and letters of guarantee	**216,229**	191,250
Letters of credit	**151,040**	131,414
Total	**2,410,028**	2,010,805

Loan commitments and financial guarantee contracts represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, the creditworthiness of counterparties and maturity characteristics of each type of contract. As at 31 December 2019 and 31 December 2018, credit risk weighted amount for credit commitments was measured under the Internal Ratings — Based approach.

	As at 31 December	
	2019	2018
Credit risk weighted amount for credit commitments	**1,063,652**	950,993

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2019	2018
Debt securities	**55,738**	163,937
Bills	**1,978**	–
Total	**57,716**	163,937

As at 31 December 2019, the financial assets sold under repurchase agreements by the Group (disclosed in Note IV 28) as at 31 December 2019 amounted to RMB53,197 million (31 December 2018: RMB157,101 million). Repurchase agreements are due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note IV 43 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 31 December 2019 amounted to RMB863,190 million in total (31 December 2018: RMB826,551 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note IV 16 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2019 and 31 December 2018.

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus unpaid interest in accordance with the terms of the related early redemption arrangement.

As at 31 December 2019, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB75,795 million (31 December 2018: RMB70,702 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the 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.

Commitment on security underwriting

As at 31 December 2019 and 31 December 2018, the Group did not have unfulfilled commitment in respect of securities underwriting business.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Operating lease commitments

As at 31 December 2019, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases, which include short-term lease and leases of low-value assets not recognized as lease liabilities, and also include the signed contracts not yet executed, amounting to RMB97 million.

43 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group retains substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitization transactions

The Group enters into securitization 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 derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its control over these assets based on the criteria as detailed in Note II 8.7 and Note III 6.

As at 31 December 2019, the total amount of unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance was RMB67,016 million (31 December 2018: RMB37,378 million). RMB11,855 million of this balance (31 December 2018: RMB16,699 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full derecognition. The remaining balance of RMB55,161 million (31 December 2018: RMB20,679 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 31 December 2019, the Group continued to recognize assets of RMB6,923 million (31 December 2018: RMB2,367 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transfer of non-performing loans

During the year ended 31 December 2019, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB32,414million (2018: RMB28,151 million), of which RMB3,338 million (2018: RMB4,976 million) was through issuing asset-back securities disclosed above. The Group carried out an assessment based on the criteria as detailed in Note II 8.7 and Note III 6 and concluded that these transferred assets qualified for full derecognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2019, of these collateral pledged disclosed in Note IV 42 Contingent Liabilities and Commitments — Collateral, RMB2,955 million (31 December 2018: RMB46,250 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2019, the carrying amount of debt securities lent to counterparties was RMB12,368 million (31 December 2018: RMB49,342 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and is intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

44.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under a centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading its credit management system.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Credit risk management (Continued)

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during 12 months ended 31 December 2019 was RMB51,398 million (During the year ended 31 December 2018:RMB66,593 million). The Group still seeks to recover amounts it is legally owned in full, but which have been written off due to no reasonable expectation of full recovery.

During the reporting period, the Group continued to improve the comprehensive risk management system to ensure effective risk management. The Group strengthened credit risk management in key areas and asset quality control, with steady declines in both the balance and ratio of non-performing loans.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury operation business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits subject to different level of management authority, and by timely reviewing and adjusting those limits in credit system. In addition, the Group also provide loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Measurement of ECL

The Group applies the ECL model to calculate loss allowances for its debt financial instruments carried at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts.

Methods applied by the Group in assessing the expected credit losses of its financial assets include risk parameters and the discounted cash flow ("DCF") model. Retail credit assets and Stage I and Stage II wholesale credit assets are assessed using risk parameters, while Stage III wholesale credit assets are subject to the discounted cash flow method.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

The Group assesses ECL in light of forward-looking information and uses complex models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers' creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses the judgments, assumptions and estimates where appropriate, including:

— Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

— Parameters for measuring ECL

— Criteria for significant increase in credit risk and default definition

— Definition of credit-impaired financial asset

— Forward-looking information

— Estimation of future cash flows for Stage III wholesale credit assets

Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. The Group classified clients into wholesale clients and retail clients based on the nature of debtors. In performing the portfolio segmentation of wholesale credit assets, the Group considers the type of borrower, industry, loan usage, and security type. When performing the portfolio segmentation for retail credit assets, the Group considers loan product type and security type to ensure the reliability of its credit risk segmentation.

Parameters for measuring ECL

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The key parameters of ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD model, LGD model and EAD model based on the internal rating based system as currently used for its risk management purpose, in accordance with the requirements of IFRS 9, in light of quantitative analyzes of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

***Measurement of ECL** (Continued)*

Parameters for measuring ECL (Continued)

The parameters are defined as follows:

— PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation;

— EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12m EAD) or over the remaining lifetime (Lifetime EAD).

— LGD represents the Group's expectation of the extent of loss on defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if default occurs over the remaining expected lifetime of the loan.

Criteria for significant increase in credit risk ("SICR") and default definition

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging assessment of its financial assets, the Group thoroughly considers various reasonable and supportable information that may reflect whether or not there has been a significant change in their credit risk, including forward-looking information. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments. The definition of default refers to the failure to pay the debt as agreed in the contract, or other violations of the debt contract and have a significant impact on the normal debt repayment.

The Group sets quantitative and qualitative criteria to determine whether or not the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD, changes in its credit risk classification and other factors. In particular, when the credit risk classification changes from Normal upon initial recognition to Special Mention, there has been SICR. When the borrower's PD rises to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varied based on the original PD upon initial recognition. If the borrower's original PD is relatively low (for example, lower than 3%), there has been a significant increase in credit risk when the credit grade falls at least 6 notches. If the criteria to determine significant increase in credit risk moves up or down by one notch, the impact on the allowance of expected credit loss on 31 December 2019 is less than 5%. According to IFRS 9, a backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group recognizes a financial instrument as having low credit risk if its internal rating is consistent with the globally accepted definition for low credit risk.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

Definition of credit-impaired financial asset

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following factors:

— Significant financial difficulty of the issuer or the borrower;

— A breach of contract, such as a default or past due event in relation to interest or principal payment;

— The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

— It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— The disappearance of an active market for that financial asset because of financial difficulties;

— The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

— The borrower is overdue for more than 90 days in any principal, advances, interest or investment in bonds due to the Group.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Measurement of ECL (Continued)

Forward-looking information

The assessment of whether or not there has been a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various portfolio. Key economic indicators include Gross Domestic Product (GDP), Consumer Price Index (CPI) and Industrial Added Value, etc.

The impact of these economic indicators on the PDs and the LGDs varies from one portfolio to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analyzes to determine the correlation between these economic indicators and the PDs and LGDs. The Group assess and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews and assesses results. Among the forecasted economic indicators, the core economic indicator GDP of base scenario aligned with the forecast data of the national research institution.

Based on statistical analyzes and expert judgements, the Group determines the weightings of multiple scenarios and the corresponding macro-economic forecast under each scenario. The macro-economic forecasts of core indicator under upside and downside scenarios deviate less than 10% of that under base scenario. The weighting of base scenario is greater than the aggregated weightings of the rest scenarios. The Group uses the weighted 12-month ECL (Stage I) or weighted lifetime ECL (Stage II and Stage III) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the assigned scenario weighting.

A sensitivity analysis is performed on key economic indicators, economic scenarios and weightings assigned used in forward-looking measurement. When the assigned weightings of upside scenario and downside scenario change by 10% and the forecast of key economic indicators change accordingly, the impact on the allowance of expected credit loss as of 31 December 2019 is less than 5%.

Estimation of future cash flows for Stage III wholesale credit assets

The Group measures the ECL for stage III wholesale credit assets using DCF method. Under DCF method, the loss allowance 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.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptance, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

A summary of the maximum exposure to credit risk is as follows:

		As at 31 December	
		2019	2018
Balances with central banks		**2,606,967**	2,707,018
Deposits with banks and other financial institutions		**235,742**	109,728
Placements with and loans to banks and other financial institutions		**523,183**	552,013
Derivative financial assets		**24,944**	36,944
Financial assets held under resale agreements		**708,551**	371,001
Loans and advances to customers	(i)	**12,819,610**	11,461,542
Financial investments			
Financial assets at fair value through profit or loss		**693,758**	591,787
Debt instrument investments at amortized cost	(ii)	**4,946,741**	4,503,698
Other debt instrument investments at fair value through other comprehensive income	(iii)	**1,671,746**	1,735,892
Other financial assets		**81,809**	58,992
Subtotal		**24,313,051**	22,128,615
Loan commitments and financial guarantee contracts	(iv)	**2,384,815**	1,990,282
Total		**26,697,866**	24,118,897

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

***Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements** (Continued)*

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels

The Group classified the credit risk levels of financial assets measured by ECL into "Low" (credit risk in good condition), "Medium" (increased credit risk), and "High" (credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

Corporate loans and advances	As at 31 December 2019		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	7,483,007	22,214	7,505,221
Medium	–	261,208	261,208
High	–	155,490	155,490
Gross carrying amount	7,483,007	438,912	7,921,919
Allowance for impairment loss	(237,105)	(163,829)	(400,934)
Net amount	7,245,902	275,083	7,520,985

Personal Loans and advances	As at 31 December 2019		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	5,338,714	–	5,338,714
Medium	–	37,193	37,193
High	–	31,720	31,720
Gross carrying amount	5,338,714	68,913	5,407,627
Allowance for impairment loss	(114,445)	(25,199)	(139,644)
Net amount	5,224,269	43,714	5,267,983

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

***Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements** (Continued)*

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels (Continued)

Corporate loans and advances	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	6,751,757	40,876	6,792,633
Medium	–	283,697	283,697
High	–	159,782	159,782
Gross carrying amount	6,751,757	484,355	7,236,112
Allowance for impairment loss	(183,686)	(192,575)	(376,261)
Net amount	6,568,071	291,780	6,859,851

Personal Loans and advances	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	4,611,259	–	4,611,259
Medium	–	35,785	35,785
High	–	30,220	30,220
Gross carrying amount	4,611,259	66,005	4,677,264
Allowance for impairment loss	(78,018)	(24,864)	(102,882)
Net amount	4,533,241	41,141	4,574,382

The above information on the maximum exposure to credit risk of loans and advances to customers does not include corresponding accured interests or loans and advances to customers measured at fair value through profit or loss.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

***Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements** (Continued)*

(ii) Maximum exposure to credit risk for debt instrument investments at amortized cost disclosed in credit risk levels

	As at 31 December 2019		
	Stage I 12m ECL	**Stage II & Stage III Lifetime ECL**	**Total**
Credit risk grade			
Low	**4,953,832**	**–**	**4,953,832**
Medium	**–**	**1,196**	**1,196**
High	**–**	**1,201**	**1,201**
Gross carrying amount	**4,953,832**	**2,397**	**4,956,229**
Allowance for impairment loss	**(8,409)**	**(1,079)**	**(9,488)**
Net amount	**4,945,423**	**1,318**	**4,946,741**

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	4,509,520	101	4,509,621
Medium	–	942	942
High	–	2,322	2,322
Gross carrying amount	4,509,520	3,365	4,512,885
Allowance for impairment loss	(6,691)	(2,496)	(9,187)
Net amount	4,502,829	869	4,503,698

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

***Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements** (Continued)*

(iii) Maximum exposure to credit risk for other debt instrument investments at fair value through other comprehensive income disclosed in credit risk levels

	As at 31 December 2019		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	**1,671,525**	**–**	**1,671,525**
Medium	**–**	**–**	**–**
High	**–**	**221**	**221**
Gross carrying amount	**1,671,525**	**221**	**1,671,746**

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	1,730,932	203	1,731,135
Medium	–	4,580	4,580
High	–	177	177
Gross carrying amount	1,730,932	4,960	1,735,892

(iv) Maximum exposure to credit risk for loan commitments and financial guarantee contracts is balance after estimated contingent liabilities. Majority of loan commitments and financial guarantee contracts is in Stage I with credit risk grade as "Low".

(v) As at 31 December 2019 and 31 December 2018, in its deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements, the Group had insignificant balances with "Medium" or "High" credit risk grade and classified as Stage II or Stage III assets, and no default had occurred.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

***Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements** (Continued)*

(vi) The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined through the assessment of credit risk of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

— Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;

— Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and

— Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i)

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Head Office	**318,970**	**4.0**	303,637	4.2
Yangtze River Delta	**1,710,643**	**21.6**	1,548,750	21.4
Pearl River Delta	**960,384**	**12.1**	842,577	11.6
Bohai Rim	**1,198,828**	**15.2**	1,128,923	15.6
Central China	**1,125,021**	**14.2**	1,017,666	14.1
Western China	**1,886,512**	**23.8**	1,721,056	23.8
Northeastern China	**316,802**	**4.0**	296,755	4.1
Overseas and Others	**404,759**	**5.1**	376,997	5.2
Subtotal	**7,921,919**	**100.0**	7,236,361	100.0
Personal loans and advances				
Head Office	**55**	**–**	66	–
Yangtze River Delta	**1,286,246**	**23.8**	1,125,425	24.1
Pearl River Delta	**1,176,564**	**21.8**	1,019,760	21.8
Bohai Rim	**802,153**	**14.8**	705,802	15.1
Central China	**857,033**	**15.9**	731,709	15.6
Western China	**1,083,958**	**20.0**	919,657	19.7
Northeastern China	**186,464**	**3.4**	163,452	3.5
Overseas and Others	**15,154**	**0.3**	11,393	0.2
Subtotal	**5,407,627**	**100.0**	4,677,264	100.0
Gross loans and advances to customers	**13,329,546**		11,913,625	

(i) The below information does not include accrued interests of loans and advances to customers.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	As at 31 December			
	2019		2018	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Transportation, logistics and postal services	**1,689,787**	**21.3**	1,410,827	19.5
Manufacturing	**1,291,327**	**16.3**	1,255,497	17.3
Leasing and commercial services	**1,047,843**	**13.2**	923,992	12.8
Production and supply of power, heat, gas and water	**900,036**	**11.4**	868,758	12.0
Real estate	**704,973**	**8.9**	619,101	8.6
Water, environment and public utilities management	**517,448**	**6.5**	438,208	6.1
Retail and wholesale	**386,064**	**4.9**	385,639	5.3
Finance	**623,570**	**7.9**	600,813	8.3
Construction	**233,961**	**2.9**	245,584	3.4
Mining	**212,201**	**2.7**	201,790	2.8
Others	**314,709**	**4.0**	286,152	3.9
Subtotal	**7,921,919**	**100.0**	7,236,361	100.0
Personal loans and advances				
Residential mortgage	**4,163,293**	**77.0**	3,661,900	78.3
Personal business	**264,980**	**4.9**	216,588	4.6
Personal consumption	**181,234**	**3.3**	166,285	3.6
Credit cards	**475,001**	**8.8**	380,720	8.1
Others	**323,119**	**6.0**	251,771	5.4
Subtotal	**5,407,627**	**100.0**	4,677,264	100.0
Gross loans and advances to customers	**13,329,546**		11,913,625	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) (Continued)

(3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	31 December 2019			
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Unsecured loans	**1,274,211**	**765,757**	**1,403,329**	**3,443,297**
Guaranteed loans	**692,480**	**430,558**	**733,377**	**1,856,415**
Loans secured by collateral	**861,640**	**418,293**	**4,618,803**	**5,898,736**
Pledged loans	**657,142**	**102,480**	**1,371,476**	**2,131,098**
Total	**3,485,473**	**1,717,088**	**8,126,985**	**13,329,546**

	31 December 2018			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,427,185	579,653	1,203,211	3,210,049
Guaranteed loans	576,797	362,033	428,125	1,366,955
Loans secured by collateral	791,952	399,413	4,260,910	5,452,275
Pledged loans	626,118	90,126	1,168,102	1,884,346
Total	3,422,052	1,431,225	7,060,348	11,913,625

(4) Past due loans

	31 December 2019					
	Up to 30 days	**31–90 days**	**91–360 days**	**361 days to 3 years**	**Over 3 years**	**Total**
Unsecured loans	**5,326**	**3,416**	**7,957**	**4,206**	**1,287**	**22,192**
Guaranteed loans	**13,441**	**3,554**	**13,259**	**10,899**	**3,090**	**44,243**
Loans secured by collateral	**28,893**	**14,514**	**25,747**	**25,865**	**8,396**	**103,415**
Pledged loans	**1,733**	**241**	**2,687**	**6,817**	**1,665**	**13,143**
Total	**49,393**	**21,725**	**49,650**	**47,787**	**14,438**	**182,993**

	31 December 2018					
	Up to 30 days	31–90 days	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	11,624	2,912	7,030	445	716	22,727
Guaranteed loans	11,129	4,646	16,181	16,401	4,060	52,417
Loans secured by collateral	28,360	16,480	31,174	31,880	9,293	117,187
Pledged loans	4,033	274	2,641	1,906	1,747	10,601
Total	55,146	24,312	57,026	50,632	15,816	202,932

When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Loans and advances to customers (i) *(Continued)*

(5) Credit quality of loans and advances to customers

As at 31 December 2019 and 31 December 2018, the credit quality of loans and advances to customers by stages is disclosed in Note IV 17.

(6) Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognized in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after modified, so that the assets are moved from Stage 3 or Stage 2 to Stage 1, and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

In order to collect loans as much as possible, the Group may renegotiate the terms of the contract with borrowers because of deterioration in their financial position, or of the inability to meet their original repayment schedule. Such contract modifications include roll over of loan, extension of non-payment period or repayment period. Based on the management's judgment of the borrowers' repayment possibility, the Group has formulated specific rescheduled loan policy and practice, and reviewed the policy continuously. In most cases, medium and long-term loans are considered to reschedule. Rescheduled loans should be reviewed after at least 6 months of observation and reach the corresponding stage classification criteria. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Rescheduled loans and advances of the Group as at 31 December 2019 amounted to RMB57,266 million (31 December 2018: RMB59,232 million).

During the period ended 31 December 2019, as a result of loan renegotiations, the Group recognized ordinary shares upon renegotiation of RMB2,123 million (during the period ended 31 December 2018: RMB3,221 million). The loss associated with these loan renegotiations was not significant.

(7) Assets foreclosed under credit enhancement arrangement

Such foreclosed assets are disclosed in Note IV 18.1(2) Other financial assets at fair value through profit or loss and Note IV 23 Other assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Debt instruments

Credit quality of debt instruments

(1) Analysis of the expected credit loss stages of debt instrument investments at amortized cost and other debt instruments at fair value through other comprehensive income were disclosed in Note IV18.2 and 18.3, respectively.

(2) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The carrying amounts of debt instruments investments at amortized cost and other debt instrument investments at fair value through other comprehensive income analyzed by their credit rating as at the end of the reporting period are as follows:

		As at 31 December 2019			
Credit grade		**Low**	**Medium**	**High**	**Total**
Debt securities issued by					
— Governments		**3,540,555**	**–**	**–**	**3,540,555**
— Public sector and quasi-governments		**1,562,706**	**–**	**–**	**1,562,706**
— Financial institutions		**784,479**	**–**	**–**	**784,479**
— Corporates	(ii)	**294,375**	**–**	**221**	**294,596**
Special government bond		**94,127**	**–**	**–**	**94,127**
Receivable from the MOF		**307,723**	**–**	**–**	**307,723**
Others		**32,983**	**1,164**	**154**	**34,301**
Total		**6,616,948**	**1,164**	**375**	**6,618,487**

		As at 31 December 2018			
Credit grade		Low	Medium	High	Total
Bonds					
— Governments		3,045,869	–	–	3,045,869
— Public sector and quasi-governments		1,556,598	–	–	1,556,598
— Financial institutions		848,336	–	–	848,336
— Corporates	(ii)	356,695	5,292	177	362,164
Special government bond		93,358	–	–	93,358
Receivable from the MOF		298,734	–	–	298,734
Others		34,469	–	62	34,531
Total		6,234,059	5,292	239	6,239,590

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(2) Debt instruments analyzed by credit rating (Continued)

(i) The ratings as at 31 December 2019 and 31 December 2018 were internal ratings obtained from the Group, financial assets at fair value through profit or loss was not included in the credit grade table as at 31 December 2019 and 31 December 2018.

(ii) As at 31 December 2019, the ratings of super short-term commercial papers of the Group amounted to RMB15,834 million (31 December 2018: RMB27,704 million) included in corporate bonds above are based on issuer rating for this credit risk analysis.

44.2 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

— Optimizing asset and liability structure;

— Maintaining stability of deposit base;

— Making projections of future cash flows, and evaluating the appropriate liquid asset position;

— Maintaining an efficient internal funds transfer mechanism within the Group; and

— Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period:

	31 December 2019								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	486,535	9,125	6,831	14,476	–	–	2,182,928	2,699,895
Deposits with banks and other financial institutions	–	90,556	33,022	20,772	90,234	1,158	–	–	235,742
Placements with and loans to banks and other financial institutions	14	–	207,602	155,974	135,902	22,298	1,393	–	523,183
Derivative financial assets	–	–	2,703	4,508	17,107	572	54	–	24,944
Financial assets held under resale agreements	3,872	–	681,579	22,323	777	–	–	–	708,551
Loans and advances to customers	18,973	–	558,669	623,929	2,673,083	2,572,187	6,372,769	–	12,819,610
Financial assets at fair value through profit or loss	–	10,066	39,013	148,812	264,557	104,287	123,340	111,286	801,361
Debt instrument investments at amortized cost	–	–	57,686	118,976	473,032	2,623,065	1,673,982	–	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	57,974	93,069	409,965	805,881	304,857	3,082	1,674,828
Other financial assets	3,030	71,148	1,371	1,449	2,028	221	1	2,561	81,809
Total financial assets	25,889	658,305	1,648,744	1,196,643	4,081,161	6,129,669	8,476,396	2,299,857	24,516,664
Borrowings from central banks	–	(30)	(14,626)	(36)	(593,394)	(450)	–	–	(608,536)
Deposits from banks and other financial institutions	–	(904,887)	(82,729)	(228,049)	(194,638)	(93,346)	(260)	–	(1,503,909)
Placements from banks and other financial institutions	–	–	(129,237)	(112,198)	(72,581)	(4,058)	(7,289)	–	(325,363)
Financial liabilities at fair value through profit or loss	–	(14,147)	(121,057)	(77,436)	(117,945)	(42)	–	–	(330,627)
Derivative financial liabilities	–	–	(6,161)	(8,296)	(12,793)	(1,799)	(499)	–	(29,548)
Financial assets sold under repurchase agreements	–	–	(22,800)	(18,671)	(11,726)	–	–	–	(53,197)
Due to customers	–	(11,165,898)	(592,346)	(1,292,948)	(2,581,024)	(2,898,018)	(12,627)	–	(18,542,861)
Debt securities issued	–	–	(66,682)	(181,008)	(493,388)	(56,452)	(310,682)	–	(1,108,212)
Other financial liabilities	–	(159,787)	(76,761)	(2,011)	(4,472)	(8,823)	(721)	(2,705)	(255,280)
Total financial liabilities	–	(12,244,749)	(1,112,399)	(1,920,653)	(4,081,961)	(3,062,988)	(332,078)	(2,705)	(22,757,533)
Net position	25,889	(11,586,444)	536,345	(724,010)	(800)	3,066,681	8,144,318	2,297,152	1,759,131

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period: (Continued)

	31 December 2018								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	321,644	6,895	1,156	6,046	–	–	2,469,366	2,805,107
Deposits with banks and other financial institutions	–	79,736	9,341	4,634	9,409	6,608	–	–	109,728
Placements with and loans to banks and other financial institutions	11	–	240,801	100,189	169,472	37,409	4,131	–	552,013
Derivative financial assets	–	–	7,633	11,579	16,025	1,257	450	–	36,944
Financial assets held under resale agreements	3,872	–	352,749	12,627	1,753	–	–	–	371,001
Loans and advances to customers	14,617	–	538,045	615,065	2,435,236	2,376,458	5,482,121	–	11,461,542
Financial assets at fair value through profit or loss	–	5,268	55,119	70,797	198,207	143,862	134,228	35,764	643,245
Debt instrument investments at amortized cost	–	2	56,424	98,997	414,999	2,410,422	1,522,854	–	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	41,872	103,062	465,868	886,821	238,269	2,240	1,738,132
Other financial assets	1,966	49,601	1,170	614	2,316	52	4	3,269	58,992
Total financial assets	20,466	456,251	1,310,049	1,018,720	3,719,331	5,862,889	7,382,057	2,510,639	22,280,402
Borrowings from central banks	–	(30)	(50,553)	(99,248)	(410,911)	(453)	–	–	(561,195)
Deposits from banks and other financial institutions	–	(556,486)	(41,138)	(243,528)	(225,963)	(35,129)	(22,078)	–	(1,124,322)
Placements from banks and other financial institutions	–	–	(126,386)	(97,578)	(85,617)	(8,518)	(7,442)	–	(325,541)
Financial liabilities at fair value through profit or loss	–	(17,188)	(79,934)	(81,225)	(104,518)	(3,400)	(38)	–	(286,303)
Derivative financial liabilities	–	–	(6,977)	(9,929)	(16,611)	(925)	(112)	–	(34,554)
Financial assets sold under repurchase agreements	–	–	(118,263)	(15,769)	(22,869)	(200)	–	–	(157,101)
Due to customers	–	(10,574,096)	(545,318)	(1,244,458)	(2,695,212)	(2,286,609)	(597)	–	(17,346,290)
Debt securities issued	–	–	(50,591)	(204,552)	(225,219)	(57,346)	(242,965)	–	(780,673)
Other financial liabilities	–	(102,519)	(68,976)	(1,668)	(4,130)	(2,803)	(80)	(1,601)	(181,777)
Total financial liabilities	–	(11,250,319)	(1,088,136)	(1,997,955)	(3,791,050)	(2,395,383)	(273,312)	(1,601)	(20,797,756)
Net position	20,466	(10,794,068)	221,913	(979,235)	(71,719)	3,467,506	7,108,745	2,509,038	1,482,646

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the other debt instrument and other equity investments at fair value through other comprehensive income to repay matured liabilities, if necessary.

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	31 December 2019								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	486,535	9,125	6,831	14,476	–	–	2,182,928	2,699,895
Deposits with banks and other financial institutions	–	90,556	33,047	20,884	91,763	1,158	–	–	237,408
Placements with and loans to banks and other financial institutions	14	–	208,566	157,415	136,766	22,413	1,451	–	526,625
Financial assets held under resale agreements	3,872	–	683,342	22,448	789	–	–	–	710,451
Loans and advances to customers	88,732	–	631,700	748,273	3,215,778	4,256,241	9,640,739	–	18,581,463
Financial assets at fair value through profit or loss	–	10,066	39,068	150,739	273,575	127,220	140,773	116,474	857,915
Debt instrument investments at amortized cost	–	–	71,325	142,840	586,483	3,014,522	1,977,753	–	5,792,923
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	60,246	98,418	443,923	881,095	339,239	2,050	1,824,971
Other financial assets	–	71,148	1,371	1,449	2,028	221	1	2,561	78,779
Total non-derivative financial assets	92,618	658,305	1,737,790	1,349,297	4,765,581	8,302,870	12,099,956	2,304,013	31,310,430
Non-derivative financial liabilities									
Borrowings from central banks	–	(30)	(14,655)	(54)	(606,271)	(450)	–	–	(621,460)
Deposits from banks and other financial institutions	–	(904,885)	(82,724)	(229,529)	(199,427)	(97,725)	(260)	–	(1,514,550)
Placements from banks and other financial institutions	–	–	(129,391)	(112,804)	(72,530)	(5,506)	(8,194)	–	(328,425)
Financial liabilities at fair value through profit or loss	–	(14,147)	(121,285)	(77,317)	(119,329)	(42)	–	–	(332,120)
Financial assets sold under repurchase agreements	–	–	(22,813)	(18,722)	(11,878)	–	–	–	(53,413)
Due to customers	–	(11,166,088)	(593,662)	(1,298,128)	(2,616,011)	(3,107,403)	(15,256)	–	(18,796,548)
Debt securities issued	–	–	(67,271)	(186,093)	(516,177)	(115,060)	(365,107)	–	(1,249,708)
Other financial liabilities	–	(159,673)	(76,762)	(2,014)	(4,530)	(9,363)	(944)	(2,705)	(255,991)
Total non-derivative financial liabilities	–	(12,244,823)	(1,108,563)	(1,924,661)	(4,146,153)	(3,335,549)	(389,761)	(2,705)	(23,152,215)
Net position	92,618	(11,586,518)	629,227	(575,364)	619,428	4,967,321	11,710,195	2,301,308	8,158,215

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period (Continued)

	31 December 2018								
	Past due	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	321,644	6,895	1,156	6,046	–	–	2,469,366	2,805,107
Deposits with banks and other financial institutions	–	79,737	9,348	4,655	9,581	6,608	–	–	109,929
Placements with and loans to banks and other financial institutions	11	–	241,562	101,589	173,608	40,319	4,731	–	561,820
Financial assets held under resale agreements	3,872	–	354,045	12,709	1,812	–	–	–	372,438
Loans and advances to customers	97,822	–	600,427	724,144	2,900,449	3,767,258	8,114,986	–	16,205,086
Financial assets at fair value through profit or loss	–	5,268	55,446	73,150	207,930	169,782	151,036	35,764	698,376
Debt instrument investments at amortized cost	–	2	72,020	126,705	524,909	2,503,816	1,767,087	–	4,994,539
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	45,883	112,551	500,456	974,855	268,951	2,240	1,904,936
Other financial assets	–	49,239	987	441	2,009	51	2	3,269	55,998
Total non-derivative financial assets	101,705	455,890	1,386,613	1,157,100	4,326,800	7,462,689	10,306,793	2,510,639	27,708,229
Non-derivative financial liabilities									
Borrowings from central banks	–	(30)	(50,619)	(99,748)	(419,625)	(449)	–	–	(570,471)
Deposits from banks and other financial institutions	–	(556,485)	(41,322)	(245,144)	(230,699)	(43,494)	(23,719)	–	(1,140,863)
Placements from banks and other financial institutions	–	–	(126,537)	(98,193)	(87,235)	(10,114)	(8,741)	–	(330,820)
Financial liabilities at fair value through profit or loss	–	(17,188)	(79,597)	(81,187)	(104,672)	(3,400)	(39)	–	(286,083)
Financial assets sold under repurchase agreements	–	–	(118,312)	(15,842)	(23,191)	(229)	–	–	(157,574)
Due to customers	–	(10,575,141)	(546,932)	(1,250,206)	(2,737,934)	(2,446,798)	(711)	–	(17,557,722)
Debt securities issued	–	–	(50,644)	(209,621)	(244,927)	(105,830)	(279,335)	–	(890,357)
Other financial liabilities	–	(102,370)	(68,976)	(1,578)	(4,130)	(2,803)	(80)	(1,601)	(181,538)
Total non-derivative financial liabilities	–	(11,251,214)	(1,082,939)	(2,001,519)	(3,852,413)	(2,613,117)	(312,625)	(1,601)	(21,115,428)
Net position	101,705	(10,795,324)	303,674	(844,419)	474,387	4,849,572	9,994,168	2,509,038	6,592,801

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Derivative cash flows

Derivatives settled on a net basis

The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

			31 December 2019			
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Derivatives on a net basis	**–**	**(5)**	**9**	**(852)**	**(427)**	**(1,275)**

			31 December 2018			
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives on a net basis	–	(12)	108	260	248	604

Derivatives settled on a gross basis

The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

			31 December 2019			
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Derivatives settled on a gross basis						
— Cash inflow	**509,415**	**449,528**	**1,849,384**	**53,790**	**40**	**2,862,157**
— Cash outflow	**(512,826)**	**(453,343)**	**(1,845,114)**	**(54,222)**	**(54)**	**(2,865,559)**
Total	**(3,411)**	**(3,815)**	**4,270**	**(432)**	**(14)**	**(3,402)**

			31 December 2018			
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Derivatives settled on a gross basis						
— Cash inflow	589,624	649,674	1,636,207	49,275	502	2,925,282
— Cash outflow	(588,961)	(648,038)	(1,637,033)	(49,351)	(496)	(2,923,879)
Total	663	1,636	(826)	(76)	6	1,403

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.2 Liquidity risk (Continued)

Off-balance sheet items

The tables below summarize the amounts of credit commitments by remaining maturity. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	31 December 2019			
	Less than 1 year	**1–5 years**	**Over 5 years**	**Total**
Loan commitments	**187,064**	**265,518**	**604,214**	**1,056,796**
Bank acceptance	**339,829**	**–**	**–**	**339,829**
Credit card commitments	**646,134**	**–**	**–**	**646,134**
Guarantee and letters of guarantee	**104,848**	**102,713**	**8,668**	**216,229**
Letters of credit	**148,334**	**2,706**	**–**	**151,040**
Total	**1,426,209**	**370,937**	**612,882**	**2,410,028**

	31 December 2018			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	132,322	246,008	528,452	906,782
Bank acceptance	242,489	–	–	242,489
Credit card commitments	538,870	–	–	538,870
Guarantee and letters of guarantee	97,061	79,005	15,184	191,250
Letters of credit	127,042	4,372	–	131,414
Total	1,137,784	329,385	543,636	2,010,805

44.3 Market risk

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on-and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

The Bank has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading book, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

VaR Analysis for the Trading Book

Bank

		2019			
		At the end of the year	**Average**	**Maximum**	**Minimum**
Interest rate risk		**75**	**89**	**116**	**57**
Exchange rate risk	(1)	**90**	**120**	**287**	**56**
Commodity risk		**9**	**15**	**25**	**5**
Overall VaR		**115**	**146**	**291**	**92**

Bank

		2018			
		At the end of the year	Average	Maximum	Minimum
Interest rate risk		109	76	119	44
Exchange rate risk	(1)	123	117	300	12
Commodity risk		17	14	19	9
Overall VaR		120	134	252	57

The Bank calculates VaR for its trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and gold. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Market Risk Management for Banking Book (Continued)

Interest Rate Risk Management

Interest rate risk refers to the risk that the adverse changes in interest rate levels and maturity structures will cause the bank's book value to suffer losses. The Bank's book interest rate risk mainly comes from the mismatch of maturity or repricing periods of interest-sensitive assets and liabilities in the Bank's book and the inconsistent changes in the benchmark interest rate on which assets and liabilities are based.

Since the People's Bank of China's LPR reform, the Bank has implemented relevant policies in accordance with regulatory requirements, promoted business system transformation, modified system loan contracts, improved internal and external interest rate pricing mechanisms, strengthened staff training for branches, comprehensively promoted LPR applications, and basically realized the entire system. The entire process of loan pricing applies LPR pricing. After the People's Bank of China reforms LPR, the connection between the benchmark interest rate on loans and the market interest rate will be closer, and the frequency and amplitude of volatility will increase relatively. To this end, the Bank strengthened the monitoring and prejudgment of the external interest rate environment, adjusted internal and external pricing strategies in a timely manner, optimized the asset and liability product structure and maturity structure, actively played the role of interest rate option products, and proactively adjusted the risk structure to reduce the economic value and overall impact of interest rate changes. The adverse impact of earnings. During the reporting period, the Bank's interest rate risk level was generally stable, and all quota indicators were controlled within the scope of regulatory requirements and management objectives.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	31 December 2019				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,634,765	53,709	1,041	10,380	2,699,895
Deposits with banks and other financial institutions	168,817	44,574	4,605	17,746	235,742
Placements with and loans to banks and other financial institutions	292,023	163,495	43,886	23,779	523,183
Derivative financial assets	10,628	13,473	194	649	24,944
Financial assets held under resale agreements	708,551	–	–	–	708,551
Loans and advances to customers	12,348,706	348,051	51,769	71,084	12,819,610
Financial assets at fair value through profit or loss	777,121	10,887	10,441	2,912	801,361
Debt instrument investments at amortized cost	4,870,459	61,071	7,982	7,229	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income	1,426,703	211,441	3,439	33,245	1,674,828
Other financial assets	71,130	7,601	1,336	1,742	81,809
Total financial assets	23,308,903	914,302	124,693	168,766	24,516,664
Borrowings from central banks	(608,086)	–	–	(450)	(608,536)
Deposits from banks and other financial institutions	(1,429,626)	(35,573)	(16,058)	(22,652)	(1,503,909)
Placements from banks and other financial institutions	(48,504)	(205,326)	(52,490)	(19,043)	(325,363)
Financial liabilities at fair value through profit or loss	(327,080)	(3,547)	–	–	(330,627)
Derivative financial liabilities	(17,558)	(11,054)	(159)	(777)	(29,548)
Financial assets sold under repurchase agreements	(14,315)	(31,638)	–	(7,244)	(53,197)
Due to customers	(18,126,394)	(356,979)	(36,907)	(22,581)	(18,542,861)
Debt securities issued	(797,166)	(244,866)	(25,539)	(40,641)	(1,108,212)
Other financial liabilities	(242,710)	(8,318)	(1,360)	(2,892)	(255,280)
Total financial liabilities	(21,611,439)	(897,301)	(132,513)	(116,280)	(22,757,533)
Net on-balance sheet position	1,697,464	17,001	(7,820)	52,486	1,759,131
Net notional amount of derivatives	126,517	22,665	(6,186)	(42,246)	100,750
Loan commitments and financial guarantee contracts	2,141,071	230,196	5,450	33,311	2,410,028

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows: (Continued)

	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,755,814	35,337	906	13,050	2,805,107
Deposits with banks and other financial institutions	41,200	52,583	4,312	11,633	109,728
Placements with and loans to banks and other financial institutions	331,738	167,234	39,896	13,145	552,013
Derivative financial assets	4,587	31,613	81	663	36,944
Financial assets held under resale agreements	371,001	–	–	–	371,001
Loans and advances to customers	11,032,180	331,601	46,919	50,842	11,461,542
Financial assets at fair value through profit or loss	616,802	11,160	12,332	2,951	643,245
Debt instrument investments at amortized cost	4,432,187	58,918	4,928	7,665	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	1,518,932	180,027	3,084	36,089	1,738,132
Other financial assets	49,641	6,592	986	1,773	58,992
Total financial assets	21,154,082	875,065	113,444	137,811	22,280,402
Borrowings from central banks	(560,742)	–	–	(453)	(561,195)
Deposits from banks and other financial institutions	(1,061,287)	(31,565)	(17,438)	(14,032)	(1,124,322)
Placements from banks and other financial institutions	(35,678)	(231,041)	(40,199)	(18,623)	(325,541)
Financial liabilities at fair value through profit or loss	(282,865)	(3,438)	–	–	(286,303)
Derivative financial liabilities	(27,894)	(5,470)	(247)	(943)	(34,554)
Financial assets sold under repurchase agreements	(111,942)	(40,008)	–	(5,151)	(157,101)
Due to customers	(16,963,294)	(332,184)	(23,965)	(26,847)	(17,346,290)
Debt securities issued	(497,790)	(209,896)	(31,747)	(41,240)	(780,673)
Other financial liabilities	(168,772)	(9,668)	(944)	(2,393)	(181,777)
Total financial liabilities	(19,710,264)	(863,270)	(114,540)	(109,682)	(20,797,756)
Net on-balance sheet position	1,443,818	11,795	(1,096)	28,129	1,482,646
Net notional amount of derivatives	66,987	17,299	9,749	(24,713)	69,322
Loan commitments and financial guarantee contracts	1,776,217	191,808	9,655	33,125	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated statement of financial position.

RMB	**31 December 2019** Profit before tax	**31 December 2019** Other comprehensive income	31 December 2018 Profit before tax	31 December 2018 Other comprehensive income
5% appreciation	**(938)**	**(298)**	(556)	240
5% depreciation	**938**	**298**	556	(240)

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities, as well as the inconsistent variations in the benchmark interest rate on which the assets and liabilities are based. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC stipulated the benchmark interest rate for RMB deposits. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 December 2015 for commercial banks. Since 16 August 2019, the PBOC established RMB Loan Prime Rate to replace RMB benchmark interest rates for loan as a pricing benchmark of new loan whereby financial institutions are in a position to price their loans based on credit risk, commercial and market factors.

The Group manages its interest rate risk by:

— Strengthen the pre-judgement of the situation and analyze the macroeconomic factors that may affect the LPR interest rate, the benchmark deposit interest rate and the market interest rate;

— Strengthen strategy transmission and optimize the repricing term structure of interest-earning assets and interest-paying liabilities;

— Implement limit management to control the impact of interest rate changes on the economic value and overall income of bank books within the limits.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

	31 December 2019						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,403,893	5,799	14,476	–	–	275,727	2,699,895
Deposits with banks and other financial institutions	112,905	20,406	88,805	–	–	13,626	235,742
Placements with and loans to banks and other financial institutions	209,698	154,261	134,853	21,083	–	3,288	523,183
Derivative financial assets	–	–	–	–	–	24,944	24,944
Financial assets held under resale agreements	681,875	22,294	774	–	–	3,608	708,551
Loans and advances to customers	5,502,472	1,574,291	5,115,754	343,985	252,466	30,642	12,819,610
Financial assets at fair value through profit or loss	42,784	152,133	255,866	113,428	105,131	132,019	801,361
Debt instrument investments at amortized cost	75,653	140,993	452,172	2,532,585	1,650,204	95,134	4,946,741
Other debt instrument and other equity investments at fair value through other comprehensive income	87,962	142,570	400,393	723,583	299,052	21,268	1,674,828
Other financial assets	–	–	–	–	–	81,809	81,809
Total financial assets	9,117,242	2,212,747	6,463,093	3,734,664	2,306,853	682,065	24,516,664
Borrowings from central banks	(14,200)	(33)	(586,915)	(455)	–	(6,933)	(608,536)
Deposits from banks and other financial institutions	(987,313)	(226,516)	(193,695)	(91,472)	(260)	(4,653)	(1,503,909)
Placements from banks and other financial institutions	(128,699)	(114,216)	(73,762)	(3,361)	(3,689)	(1,636)	(325,363)
Financial liabilities at fair value through profit or loss	(119,351)	(76,811)	(116,944)	(42)	–	(17,479)	(330,627)
Derivative financial liabilities	–	–	–	–	–	(29,548)	(29,548)
Financial assets sold under repurchase agreements	(22,680)	(18,554)	(11,631)	–	–	(332)	(53,197)
Due to customers	(11,671,856)	(1,255,456)	(2,520,131)	(2,804,741)	(12,502)	(278,175)	(18,542,861)
Debt securities issued	(84,224)	(212,941)	(478,509)	(20,551)	(303,405)	(8,582)	(1,108,212)
Other financial liabilities	–	–	–	–	–	(255,280)	(255,280)
Total financial liabilities	(13,028,323)	(1,904,527)	(3,981,587)	(2,920,622)	(319,856)	(602,618)	(22,757,533)
Interest rate gap	(3,911,081)	308,220	2,481,506	814,042	1,986,997	79,447	1,759,131

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period. (Continued)

	31 December 2018						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,525,736	–	6,046	–	–	273,325	2,805,107
Deposits with banks and other financial institutions	88,252	4,602	9,325	6,148	–	1,401	109,728
Placements with and loans to banks and other financial institutions	255,919	128,851	161,825	1,823	–	3,595	552,013
Derivative financial assets	–	–	–	–	–	36,944	36,944
Financial assets held under resale agreements	351,927	12,317	1,733	–	–	5,024	371,001
Loans and advances to customers	5,254,390	1,858,490	3,873,792	211,158	236,652	27,060	11,461,542
Financial assets at fair value through profit or loss	57,964	76,890	193,623	132,401	134,775	47,592	643,245
Debt instrument investments at amortized cost	65,371	111,723	407,488	2,344,377	1,493,131	81,608	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	74,705	180,807	439,067	789,488	232,884	21,181	1,738,132
Other financial assets	–	–	–	–	–	58,992	58,992
Total financial assets	8,674,264	2,373,680	5,092,899	3,485,395	2,097,442	556,722	22,280,402
Borrowings from central banks	(49,000)	(96,559)	(406,000)	(456)	–	(9,180)	(561,195)
Deposits from banks and other financial institutions	(598,768)	(241,587)	(220,417)	(34,049)	(21,630)	(7,871)	(1,124,322)
Placements from banks and other financial institutions	(125,830)	(98,972)	(85,916)	(6,450)	(6,657)	(1,716)	(325,541)
Financial liabilities at fair value through profit or loss	(79,464)	(80,720)	(103,108)	(3,400)	(38)	(19,573)	(286,303)
Derivative financial liabilities	–	–	–	–	–	(34,554)	(34,554)
Financial assets sold under repurchase agreements	(118,163)	(15,633)	(22,745)	(200)	–	(360)	(157,101)
Due to customers	(11,034,284)	(1,211,550)	(2,632,559)	(2,205,898)	(475)	(261,524)	(17,346,290)
Debt securities issued	(62,819)	(243,563)	(210,654)	(20,190)	(237,804)	(5,643)	(780,673)
Other financial liabilities	–	–	–	–	–	(181,777)	(181,777)
Total financial liabilities	(12,068,328)	(1,988,584)	(3,681,399)	(2,270,643)	(266,604)	(522,198)	(20,797,756)
Interest rate gap	(3,394,064)	385,096	1,411,500	1,214,752	1,830,838	34,524	1,482,646

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.3 Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as other debt instrument and other equity investments at fair value through other comprehensive held, whose fair value changes are recorded as an element of other comprehensive income.

	31 December 2019		31 December 2018	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(25,607)**	**(42,579)**	(24,024)	(67,879)
−100 basis points	**25,607**	**42,579**	24,024	67,879

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

44.4 Country Risk

Country risk represents the risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or otherwise leads to business losses or other losses to the Bank in that country or region.

According to the regulatory requirements of CBIRC, the Group managed country risk through tools and approaches such as country risk rating, limit approval, exposure analysis and stress testing. In the meanwhile, we fully considered the impact of country risk on asset quality, accurately identified, reasonably assessed and prudently estimated the asset loss that may be caused by country risk. Corresponding provisions were also made for country risk impairment.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 FINANCIAL RISK MANAGEMENT (Continued)

44.5 Insurance risk

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

45 CAPITAL MANAGEMENT

The Group's capital management objectives are as follows:

— maintain an adequate capital base to support the development of its business;

— support the Group's financial stability and profitable growth;

— allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and

— safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

— minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;

— capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;

— additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;

— should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 CAPITAL MANAGEMENT (Continued)

In April 2014, the CBIRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBIRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBIRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC.

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC as at the end of the reporting period is as follows:

		31 December 2019	31 December 2018
Common Equity Tier-one Capital Adequacy Ratio	(1)	**11.24%**	11.55%
Tier-one Capital Adequacy Ratio	(1)	**12.53%**	12.13%
Capital Adequacy Ratio	(1)	**16.13%**	15.12%
Common Equity Tier-one Capital	(2)	**1,748,467**	1,591,376
Deductible Items from Common Equity Tier-one Capital	(3)	**(7,883)**	(7,449)
Net Common Equity Tier-one Capital		**1,740,584**	1,583,927
Additional Tier-one Capital	(4)	**199,894**	79,906
Net Tier-one Capital		**1,940,478**	1,663,833
Tier-two Capital	(5)	**557,833**	409,510
Net Capital		**2,498,311**	2,073,343
Risk-weighted Assets	(6)	**15,485,352**	13,712,894

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 CAPITAL MANAGEMENT (Continued)

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Group's assets and liabilities in the consolidated statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 31 December 2019 and 31 December 2018.

46.1 Valuation technique, input and process

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 by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Accounting Department of head office establishes the valuation models for financial assets and financial liabilities of head office and its branches in China and independently implements the valuation on a regular basis; and the Risk Management Department is responsible for validating the valuation model, the Operations Departments records the accounting for these items. Overseas branches and sub-branches designate departments or personnel that are independent from the front trading office to perform valuation in accordance with the local regulatory requirements and their own department settings.

The board of directors shall be responsible for establishing and improving the internal control system related to the valuation of financial instruments and approving valuation policies.

For the year ended 31 December 2019 and 31 December 2018, there was no significant changes in the valuation techniques or inputs used to determine fair value measurements.

46.2 Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central banks, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

	31 December 2019				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	**4,544,892**	**4,627,432**	**33,506**	**4,403,618**	**190,308**
Financial liabilities					
Bonds issued	**356,902**	**365,299**	**23,643**	**341,656**	**–**

	31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Debt instruments classified as receivables (excluding receivable from the MOF and special government bond)	4,111,606	4,172,399	19,139	3,948,241	205,019
Financial liabilities					
Bonds issued	282,880	291,787	26,597	265,190	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position*

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	24,128	–	24,128
— Interest rate derivatives	–	340	–	340
— Precious metal contracts and others	–	476	–	476
Subtotal	–	24,944	–	24,944
Loans and advances to customers				
— Discounted bills and forfeiting	–	540,387	–	540,387
— Negotiation L/C	–	–	–	–
Subtotal	–	540,387	–	540,387
Financial investment				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss:				
— Held for trading				
Bonds	2,190	199,269	–	201,459
Precious metal contracts	–	29,132	–	29,132
Equity	2,354	–	–	2,354
Fund	7,100	236	–	7,336
— Other financial assets at fair value through profit or loss				
Bonds	–	93,298	4,194	97,492
Equity	2,108	22,194	70,881	95,183
Fund and others	2,227	5,351	15,799	23,377
— Financial assets designated at fair value value through profit or loss				
Debt securities	12,419	199,231	–	211,650
Deposits with banks and other financial institutions	–	28,207	–	28,207
Placements with and loans to banks and other financial institutions	–	99,174	5,010	104,184
Others	–	–	987	987
Subtotal	28,398	676,092	96,871	801,361
Other debt instruments and other equity investments at fair value through other comprehensive income				
Debt instruments				
— Bonds	200,203	1,452,949	–	1,653,152
— Others	–	–	18,594	18,594
Equity instruments	1,107	–	1,975	3,082
Subtotal	201,310	1,452,949	20,569	1,674,828
Total assets	229,708	2,694,372	117,440	3,041,520

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value. (Continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
— Held for trading				
Financial liabilities related to precious metals	–	(14,147)	–	(14,147)
— Financial liabilities designated at fair value through profit or loss				
Principal guaranteed wealth management products	–	–	(312,975)	(312,975)
Overseas debt securities	–	(3,505)	–	(3,505)
Subtotal	–	(17,652)	(312,975)	(330,627)
Derivative financial liabilities				
— Exchange rate derivatives	–	(20,382)	–	(20,382)
— Interest rate derivatives	–	(1,676)	–	(1,676)
— Precious metal contracts	–	(7,490)	–	(7,490)
Subtotal	–	(29,548)	–	(29,548)
Due to customers				
Due to customers measured at fair value	–	(146,474)	–	(146,474)
Total liabilities	–	(193,674)	(312,975)	(506,649)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)*

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value (Continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
— Exchange rate derivatives	–	35,074	14	35,088
— Interest rate derivatives	–	1,635	19	1,654
— Precious metal contracts and others	–	202	–	202
Subtotal	–	36,911	33	36,944
Loans and advances to customers				
— Discounted bills and forfeiting	–	433,912	–	433,912
— Negotiation L/C	–	249	–	249
Subtotal	–	434,161	–	434,161
Financial investment				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss:				
— Held for trading				
Bonds	–	214,008	–	214,008
Precious metal contracts	–	28,139	–	28,139
Equity and fund	4,440	201	–	4,641
— Other financial assets at fair value through profit or loss				
Bonds	–	71,110	5,775	76,885
Equity and fund	19,937	3,217	13,998	37,152
Others	208	6,786	8,694	15,688
— Financial assets designated at fair value through profit or loss				
Debt securities	181	142,723	–	142,904
Deposits with banks and other financial institutions	–	9,174	–	9,174
Placements with and loans to banks and other financial institutions	–	78,092	32,339	110,431
Others	–	–	4,223	4,223
Subtotal	24,766	553,450	65,029	643,245
Other debt instrument and other equity investments at fair value through other comprehensive income				
Debt instruments				
— Bonds	80,435	1,641,141	–	1,721,576
— Others	–	–	14,316	14,316
Equity instruments	988	–	1,252	2,240
Subtotal	81,423	1,641,141	15,568	1,738,132
Total assets	106,189	2,665,443	80,850	2,852,482

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position* (Continued)

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value (Continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
— Held for trading				
Financial liabilities related to precious metals	–	(17,188)	–	(17,188)
— Financial liabilities designated at fair value through profit or loss				
Principal guaranteed wealth management products	–	–	(265,715)	(265,715)
Overseas debt securities	–	(3,400)	–	(3,400)
Subtotal	–	(20,588)	(265,715)	(286,303)
Derivative financial liabilities				
— Exchange rate derivatives	–	(31,381)	(14)	(31,395)
— Interest rate derivatives	–	(820)	(19)	(839)
— Precious metal contracts	–	(2,320)	–	(2,320)
Subtotal	–	(34,521)	(33)	(34,554)
Total liabilities	–	(55,109)	(265,748)	(320,857)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps, currency options and precious metal contracts. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps and currency options are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed WMPs issued by the Group including deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and credit assets. The counterparties of these deposits and placements are primarily commercial banks and non-bank financial institutions in Mainland China. The credit assets are loans and advances to corporate customers in Mainland China. Level 3 financial liabilities largely represented liabilities to the investors of these products. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter relating to credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

There was no significant transfer amongst the different levels of the fair value hierarchy during the years ended 31 December 2019 and 31 December 2018.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position *(Continued)*

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows:

	2019				
	Financial assets at fair value through profit or loss	**Derivative Financial assets**	**Other debt instrument and other equity investments at fair value through other comprehensive income**	**Financial liabilities at fair value through profit or loss**	**Derivative financial liabilities**
31 December 2018	**65,029**	**33**	**15,568**	**(265,715)**	**(33)**
Purchases	**116,620**	**–**	**8,183**	**–**	**–**
Issues	**–**	**–**	**–**	**(1,556,474)**	**–**
Settlements/disposals	**(87,063)**	**(33)**	**(3,503)**	**1,517,367**	**33**
Total loss/(gain) recognized in					
— Profit or loss	**2,285**	**–**	**–**	**(8,153)**	**–**
— Other comprehensive income	**–**	**–**	**321**	**–**	**–**
31 December 2019	**96,871**	**–**	**20,569**	**(312,975)**	**–**
Change in unrealized loss/(gain) for the period included in profit or loss for assets/liabilities held at the end of the year	**1,004**	**–**	**–**	**85**	**–**

	2018				
	Financial assets at fair value through profit or loss	Derivative Financial assets	Other debt instrument and other equity investments at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2018	131,928	25	11,950	(364,151)	(37)
Purchases	40,833	–	7,386	–	–
Issues	–	–	–	1,742,672	–
Settlements/disposals	(109,866)	(19)	(3,760)	(1,633,946)	1
Total loss/(gain) recognized in					
— Profit or loss	2,134	27	(7)	(10,290)	3
— Other comprehensive income	–	–	(1)	–	–
31 December 2018	65,029	33	15,568	(265,715)	(33)
Change in unrealized loss/(gain) for the period included in profit or loss for assets/liabilities held at the end of the year	(3,390)	16	–	44	10

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

46.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in net gain/loss on financial investments (Note IV 4) of the consolidated income statement.

47 EVENTS AFTER THE REPORTING PERIOD

47.1 Profit appropriation

(1) Pursuant to the resolutions of the Board of Directors' meeting on 10 January 2020, a cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved and the dividend was distributed on 11 March 2020.

(2) Pursuant to the meeting of the Board of Directors on 30 March 2020, the proposal for profit appropriations of the Bank for the year ended 31 December 2019 are set forth as follows:

(i) An appropriation of RMB20,623 million to the statutory surplus reserve (Note IV 36);

(ii) An appropriation of RMB34,211 million to the general reserve(Note IV 37);

(iii) A cash dividend of RMB0.1819 per ordinary share in respect of the year ended 31 December 2019 based on the number of ordinary shares issued as at 31 December 2019 totaling RMB63,662 million (Note IV 10).

As at 31 December 2019, the statutory surplus reserve had been recognized as appropriation. The other two items will be recognized in the Group's financial statements after approval by ordinary equity holders in the forthcoming Annul General Meeting.

47.2 Impact assessment on epidemic situation of COVID-19

Since the outbreak of pandemic COVID-19 in January 2020, China and other countries and regions have adopted prevention and control measures. The Group stringently implemented decisions and plans of the Central Committee of the Communist Party of China and the State Council, and coordinated overall plans to strengthen pandemic prevention and control, financial services, and operation management. The Group will pay close attention to development of the situation, continuously evaluate and actively respond to the impact of the pandemic on the Group's financial position and operating results, and ensure the Group's financial position and operating results remain steady. As at the report date of this report, the evaluation is still in progress.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 STATEMENT OF FINANCIAL POSITION OF THE BANK

	Notes IV	As at 31 December 2019	2018
Assets			
Cash and balances with central banks		**2,699,397**	2,804,746
Deposits with banks and other financial institutions		**210,400**	90,380
Precious metals		**30,063**	21,268
Placements with and loans to banks and other financial institutions		**611,187**	581,208
Derivative financial assets		**24,944**	36,944
Financial assets held under resale agreements		**701,304**	369,024
Loans and advances to customers		**12,765,407**	11,420,286
Financial investments			
Financial assets at fair value through profit or loss		**608,494**	497,702
Debt instrument investments at amortized cost		**4,915,498**	4,467,824
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,579,790**	1,688,965
Investment in subsidiaries	19	**41,543**	28,960
Investments in associates and joint ventures		**208**	236
Controlled structured entities investments		**131,462**	110,462
Property and equipment		**141,692**	143,296
Deferred tax assets		**120,072**	112,535
Other assets		**125,774**	90,071
Total assets		**24,707,235**	22,463,907
Liabilities			
Borrowings from central banks		**608,488**	561,136
Deposits from banks and other financial institutions		**1,514,804**	1,128,357
Placements from banks and other financial institutions		**284,187**	291,632
Financial liabilities at fair value through profit or loss		**330,627**	286,303
Derivative financial liabilities		**29,496**	34,525
Financial assets sold under repurchase agreements		**49,360**	152,847
Due to customers		**18,541,030**	17,346,832
Debt securities issued		**1,081,040**	758,935
Other liabilities		**332,818**	239,961
Total liabilities		**22,771,850**	20,800,528

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

	Notes IV	As at 31 December 2019	2018
Equity			
Ordinary shares	32	**349,983**	349,983
Other equity intruments	33	**199,886**	79,899
Preference shares		**79,899**	79,899
Perpetual bonds		**119,987**	–
Capital reserve	34	**173,357**	173,357
Investment revaluation reserve	35	**29,549**	18,890
Surplus reserve	36	**174,551**	153,928
General reserve	37	**275,790**	238,215
Retained earnings		**730,309**	647,737
Foreign currency translation reserve		**1,960**	1,370
Total equity		**1,935,385**	1,663,379
Total equity and liabilities		**24,707,235**	22,463,907

Approved and authorized for issue by the Board of Directors on 30 March 2020.

Zhou Mubing	**Zhang Keqiu**
Chairman	*Executive Director*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 STATEMENT OF CHANGES IN EQUITY OF THE BANK

	Note IV	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2018		**349,983**	**79,899**	**173,357**	**18,890**	**153,928**	**238,215**	**647,737**	**1,370**	**1,663,379**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**206,232**	**–**	**206,232**
Other comprehensive income		**–**	**–**	**–**	**10,659**	**–**	**–**	**–**	**590**	**11,249**
Total comprehensive income for the year		**–**	**–**	**–**	**10,659**	**–**	**–**	**206,232**	**590**	**217,481**
Capital contribution from equity holders	33	**–**	**119,987**	**–**	**–**	**–**	**–**	**–**	**–**	**119,987**
Appropriation to surplus reserve	36	**–**	**–**	**–**	**–**	**20,623**	**–**	**(20,623)**	**–**	**–**
Appropriation to general reserve	37	**–**	**–**	**–**	**–**	**–**	**37,575**	**(37,575)**	**–**	**–**
Dividends to ordinary equity holders	10	**–**	**–**	**–**	**–**	**–**	**–**	**(60,862)**	**–**	**(60,862)**
Dividends to preference shareholders	10	**–**	**–**	**–**	**–**	**–**	**–**	**(4,600)**	**–**	**(4,600)**
As at 31 December 2019		**349,983**	**199,886**	**173,357**	**29,549**	**174,551**	**275,790**	**730,309**	**1,960**	**1,935,385**

	Note IV	Ordinary shares	Other equity instruments	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2017		324,794	79,899	98,574	(18,934)	134,061	230,065	574,931	117	1,423,507
Change in accounting policy		–	–	–	9,641	–	(95)	(35,243)	–	(25,697)
As at 1 January 2018		324,794	79,899	98,574	(9,293)	134,061	229,970	539,688	117	1,397,810
Profit for the year		–	–	–	–	–	–	198,672	–	198,672
Other comprehensive income		–	–	–	28,183	–	–	–	1,253	29,436
Total comprehensive income for the year		–	–	–	28,183	–	–	198,672	1,253	228,108
Capital contribution from equity holders	32	25,189	–	74,783	–	–	–	–	–	99,972
Appropriation to surplus reserve	36	–	–	–	–	19,867	–	(19,867)	–	–
Appropriation to general reserve	37	–	–	–	–	–	8,245	(8,245)	–	–
Dividends to ordinary equity holders	10	–	–	–	–	–	–	(57,911)	–	(57,911)
Dividends to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)
As at 31 December 2018		349,983	79,899	173,357	18,890	153,928	238,215	647,737	1,370	1,663,379

羅兵咸永道

To the Shareholders of Agricultural Bank of China Limited

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

Opinion

What we have audited

The consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 160 to 329, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of 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 International Standards on Auditing ("ISAs"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 summarized as follows:

- Measurement of expected credit losses for loans and advances to customers
- Consolidation of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers	
Refer to Note II 12.5, Note III 1, Note IV 8, Note IV 18 and Note IV 45.1 to the consolidated financial statements. As at 31 December 2018, the carrying amount of Group's loans and advances to customers was RMB11,461.54 billion, of which RMB11,027.38 billion were measured at amortized cost and RMB433.91 billion were measured at fair value through other comprehensive income. A loss allowance of RMB479.14 billion was recognized for loans and advances to customers measured at amortized cost and a loss allowance of RMB7.47 billion was recognized for loans and advances to customers measured at fair value through other comprehensive income in the Group's consolidated statement of financial position. The credit impairment losses on loans and advances to customers recognized in the Group's consolidated income statement for the year ended 31 December 2018 amounted to RMB130.11 billion. The loss allowances for loans and advances to customers represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses ("ECL") models. The Group assessed whether the credit risk of loans and advances to customers had increased significantly since their initial recognition, and applied a three-stage impairment approach to calculate their ECL. For corporate loans and advances classified into stages I and II and for all personal loans, management assessed ECL using the risk parameter modelling approach that incorporated key parameters (including probability of default, loss given default, exposure at default, etc.). For corporate loans and advances in stage III, management assessed ECL by estimating the future cash flows from the loans.	We evaluated and tested the design and operating effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, primarily including: (1) Internal controls over ECL models, including the selection, approval and application of modelling methodology; and ongoing monitoring and optimization of the models; (2) Review and approval of significant management judgements and assumptions, including portfolio segmentation, model selections, key parameters estimation, determination of significant increase in credit risk, identification of default and credit-impaired assets and forward-looking measurement; (3) Internal controls over the accuracy and completeness of data 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 in stage III; (5) Internal controls over the information systems for ECL measurement; (6) Review and approval of the measurement result of expected credit losses for loans and advances to customers. We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the significant judgements and assumptions involved, including portfolio segmentation, models selections, key parameters estimation (including probability of default, loss given default, exposure at default etc.) and so on. We examined the ECL calculation engines on a sample basis, to validate whether or not the ECL calculation engines reflect the management's modelling methodologies.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers (Continued)	
The measurement of ECL for loans and advances to customers involves significant management judgments and assumptions, primarily including: (1) Segmentation of portfolio based on credit risk characteristics, selection of appropriate models and determination of relevant key parameters; (2) Determination of whether or not there was a significant increase in credit risk, default or credit-impaired; (3) Inputs and assumptions used to estimate the impact of forward looking information and multiple economic scenarios; (4) Estimation of future cash flows for corporate loans and advances in stage III. The Group established internal controls for the measurement of ECL. Measurement of ECL for loans and advances to customers involved complex models and significant management judgements over parameters and data inputs, and hence was identified as a key audit matter.	We performed substantive testing over a sample of loans and advances to customers, and considered financial and non-financial information, relevant external evidence and other factors of the borrowers, to assess the appropriateness of management's identification of significant increase in credit risk, defaults and credit-impaired loans. For forward-looking measurement, we reviewed management's analysis of their selection of economic indicators, economic scenarios and weightings assigned. We assessed the reasonableness of the parameters and inputs used in the forward looking and multiple economic scenarios models. We performed sensitivity analysis of the economic indicators, economic scenarios and weightings assigned. For corporate loans and advances in stage III, 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. We examined critical data elements to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also tested the interfaces of the major data transfer between the ECL calculation engines and relevant information systems, to verify their accuracy and completeness. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers, the models, key parameters, significant judgement 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	
Refer to Note II 5, Note III 5 and Note IV 42 to the consolidated financial statements. Structured entities primarily included Wealth Management Products ("WMPs"), securitization products, funds, trust investment plans and asset management plans issued, managed and/or invested by the Group. As at 31 December 2018, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB363.25 billion and RMB60.66 billion, respectively. In addition, as at 31 December 2018, total assets of non-principal guaranteed WMPs, funds and asset management plans sponsored and managed by the Group which were not consolidated and not included in the consolidated statement of financial position amounted to RMB1,706.49 billion and RMB684.65 billion, respectively. Management had determined whether the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key area of audit focus.	We evaluated and tested the design and operating effectiveness of the Group's relevant controls over consolidation assessment of structured entities, including approval of transaction structure, review and approval of contractual terms, variable return computations, and consolidation assessment results. We selected samples of structured entities and assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities. We 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 by the Group as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. We also assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the sampled structured entities, the remuneration to which the Group was entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities. Based on the procedures performed, we found management's consolidation judgment of these structured entities 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Leung Wai Kin.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

Consolidated Income Statement

For the year ended 31 December 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2018	2017
Interest income	1	**784,724**	713,699
Interest expense	1	**(306,964)**	(271,769)
Net interest income	1	**477,760**	441,930
Fee and commission income	2	**91,525**	85,257
Fee and commission expense	2	**(13,384)**	(12,354)
Net fee and commission income	2	**78,141**	72,903
Net trading gain/(loss)	3	**16,069**	(8,829)
Net gain/(loss) on financial investments	4	**8,460**	(3,108)
Net gain on derecognition of financial assets measured at amortized cost		**30**	N/A
Other operating income	5	**22,097**	40,002
Operating income		**602,557**	542,898
Operating expenses	6	**(213,963)**	(205,268)
Credit impairment losses	8	**(136,647)**	N/A
Impairment losses on other assets		**(251)**	N/A
Impairment losses on assets	9	**N/A**	(98,166)
Operating profit		**251,696**	239,464
Share of result of associates and joint ventures	21	**(22)**	14
Profit before tax		**251,674**	239,478
Income tax expense	10	**(49,043)**	(46,345)
Profit for the year		**202,631**	193,133
Attributable to:			
Equity holders of the Bank		**202,783**	192,962
Non-controlling interests		**(152)**	171
		202,631	193,133
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share) – Basic and diluted	12	**0.59**	0.58

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2018	2017
Profit for the year	**202,631**	193,133
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on financial assets at fair value through other comprehensive income	**35,360**	N/A
Loss allowance on financial assets at fair value through other comprehensive income	**3,243**	N/A
Income tax impact for fair value changes and loss allowance on financial assets at fair value through other comprehensive income	**(9,290)**	N/A
Net losses from fair value changes on available-for-sale financial assets	**N/A**	(31,443)
Income tax impact for fair value changes on available-for-sale financial assets	**N/A**	7,588
Foreign currency translation differences	**1,505**	(1,657)
Subtotal	**30,818**	(25,512)
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes on other equity investments designated at fair value through other comprehensive income	**196**	N/A
Income tax impact for fair value changes on other equity investments designated at fair value through other comprehensive income	**(47)**	N/A
Subtotal	**149**	N/A
Other comprehensive income, net of tax	**30,967**	(25,512)
Total comprehensive income for the year	**233,598**	167,621
Total comprehensive income attributable to:		
Equity holders of the Bank	**233,079**	168,037
Non-controlling interests	**519**	(416)
	233,598	167,621

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

Consolidated Statement of Financial Position

As at 31 December 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2018	2017
Assets			
Cash and balances with central banks	13	**2,805,107**	2,896,619
Deposits with banks and other financial institutions	14	**109,728**	130,245
Precious metals		**21,268**	32,008
Placements with and loans to banks and other financial institutions	15	**552,013**	505,269
Derivative financial assets	16	**36,944**	28,284
Financial assets held under resale agreements	17	**371,001**	540,386
Loans and advances to customers	18	**11,461,542**	10,316,311
Financial investments	19		
Financial assets at fair value through profit or loss		**643,245**	N/A
Debt instrument investments at amortized cost		**4,503,698**	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,738,132**	N/A
Financial assets held for trading		**N/A**	194,640
Financial assets designated at fair value through profit or loss		**N/A**	383,325
Available-for-sale financial assets		**N/A**	1,426,420
Held-to-maturity investments		**N/A**	3,489,135
Debt instruments classified as receivables		**N/A**	659,223
Investment in associates and joint ventures	21	**4,005**	227
Property and equipment	22	**152,452**	155,258
Goodwill		**1,381**	1,381
Deferred tax assets	23	**113,293**	97,751
Other assets	24	**95,662**	196,900
Total assets		**22,609,471**	21,053,382
Liabilities			
Borrowings from central banks	25	**561,195**	465,947
Deposits from banks and other financial institutions	26	**1,124,322**	974,730
Placements from banks and other financial institutions	27	**325,541**	280,061
Financial liabilities at fair value through profit or loss	28	**286,303**	391,772
Derivative financial liabilities	16	**34,554**	30,872
Financial assets sold under repurchase agreements	29	**157,101**	319,789
Due to customers	30	**17,346,290**	16,194,279
Debt securities issued	31	**780,673**	475,017
Deferred tax liabilities	23	**139**	87
Other liabilities	32	**318,566**	491,431
Total liabilities		**20,934,684**	19,623,985

Consolidated Statement of Financial Position

As at 31 December 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2018	2017
Equity			
Ordinary shares	33	**349,983**	324,794
Preference shares	34	**79,899**	79,899
Capital reserve	35	**173,556**	98,773
Investment revaluation reserve	36	**18,992**	(19,690)
Surplus reserve	37	**154,257**	134,348
General reserve	38	**239,190**	230,750
Retained earnings		**652,944**	577,573
Foreign currency translation reserve		**1,473**	(32)
Equity attributable to equity holders of the Bank		**1,670,294**	1,426,415
Non-controlling interests		**4,493**	2,982
Total equity		**1,674,787**	1,429,397
Total equity and liabilities		**22,609,471**	21,053,382

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

Approved and authorized for issue by the Board of Directors on 29 March 2019.

Chairman

Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 31 December 2017		**324,794**	**79,899**	**98,773**	**(19,690)**	**134,348**	**230,750**	**577,573**	**(32)**	**1,426,415**	**2,982**	**1,429,397**
Change in accounting policy (Note II 2)		**–**	**–**	**–**	**9,891**	**–**	**(95)**	**(36,457)**	**–**	**(26,661)**	**244**	**(26,417)**
As at 1 January 2018		**324,794**	**79,899**	**98,773**	**(9,799)**	**134,348**	**230,655**	**541,116**	**(32)**	**1,399,754**	**3,226**	**1,402,980**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**202,783**	**–**	**202,783**	**(152)**	**202,631**
Other comprehensive income		**–**	**–**	**–**	**28,791**	**–**	**–**	**–**	**1,505**	**30,296**	**671**	**30,967**
Total comprehensive income for the year		**–**	**–**	**–**	**28,791**	**–**	**–**	**202,783**	**1,505**	**233,079**	**519**	**233,598**
Capital contribution from equity holders	33	**25,189**	**–**	**74,783**	**–**	**–**	**–**	**–**	**–**	**99,972**	**749**	**100,721**
Appropriation to surplus reserve	37	**–**	**–**	**–**	**–**	**19,909**	**–**	**(19,909)**	**–**	**–**	**–**	**–**
Appropriation to general reserve	38	**–**	**–**	**–**	**–**	**–**	**8,535**	**(8,535)**	**–**	**–**	**–**	**–**
Dividends paid to ordinary equity holders	11	**–**	**–**	**–**	**–**	**–**	**–**	**(57,911)**	**–**	**(57,911)**	**–**	**(57,911)**
Dividends paid to preference shareholders	11	**–**	**–**	**–**	**–**	**–**	**–**	**(4,600)**	**–**	**(4,600)**	**–**	**(4,600)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
As at 31 December 2018		**349,983**	**79,899**	**173,556**	**18,992**	**154,257**	**239,190**	**652,944**	**1,473**	**1,670,294**	**4,493**	**1,674,787**
As at 1 January 2017		324,794	79,899	98,773	3,578	115,136	198,305	496,083	1,625	1,318,193	3,398	1,321,591
Profit for the year		–	–	–	–	–	–	192,962	–	192,962	171	193,133
Other comprehensive income		–	–	–	(23,268)	–	–	–	(1,657)	(24,925)	(587)	(25,512)
Total comprehensive income for the year		–	–	–	(23,268)	–	–	192,962	(1,657)	168,037	(416)	167,621
Appropriation to surplus reserve	37	–	–	–	–	19,212	–	(19,212)	–	–	–	–
Appropriation to general reserve	38	–	–	–	–	–	32,445	(32,445)	–	–	–	–
Dividends paid to ordinary equity holders	11	–	–	–	–	–	–	(55,215)	–	(55,215)	–	(55,215)
Dividends paid to preference shareholders	11	–	–	–	–	–	–	(4,600)	–	(4,600)	–	(4,600)
As at 31 December 2017		324,794	79,899	98,773	(19,690)	134,348	230,750	577,573	(32)	1,426,415	2,982	1,429,397

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

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
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**251,674**	239,478
Adjustments for:		
Amortization of intangible assets and other assets	**2,309**	2,826
Depreciation of property and equipment	**14,104**	15,453
Credit impairment losses	**136,647**	N/A
Impairment losses on other assets	**251**	N/A
Impairment losses on assets	**N/A**	98,166
Interest income arising from investment securities	**(216,118)**	(195,994)
Interest expense on debt securities issued	**23,094**	13,772
Revaluation (gain)/loss on financial instruments at fair value through profit or loss	**(5,120)**	18,196
Net gain on investment securities	**(351)**	(136)
Share of result of associates and joint ventures	**22**	(14)
Net gain on disposal of property, equipment and other assets	**(1,068)**	(941)
Net foreign exchange (gain)/loss	**(6,733)**	5,178
	198,711	195,984
Net change in operating assets and operating liabilities:		
Net decrease in balances with central banks, deposits with banks and other financial institutions	**266,843**	265,819
Net (increase)/decrease in placements with and loans to banks and other financial institutions	**(75,015)**	158,332
Net decrease in financial assets held under resale agreements	**23,004**	17,527
Net increase in loans and advances to customers	**(1,238,775)**	(1,135,665)
Net increase in borrowings from central banks	**86,098**	174,895
Net increase/(decrease) in placements from banks and other financial institutions	**43,764**	(21,960)
Net increase in due to customers and deposits from banks and other financial institutions	**1,093,590**	974,964
Decrease/(Increase) in other operating assets	**3,365**	(104,152)
(Decrease)/Increase in other operating liabilities	**(247,938)**	144,479
Cash from operations	**153,647**	670,223
Income tax paid	**(47,720)**	(36,806)
NET CASH FROM OPERATING ACTIVITIES	**105,927**	633,417

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		**1,868,019**	1,920,667
Cash received from interest income arising from investment securities		**199,604**	189,384
Cash received from disposal of property, equipment and other assets		**5,605**	2,138
Cash paid for purchase of investment securities		**(2,491,466)**	(2,577,239)
Increase in investment in associates and joint ventures		**(3,801)**	–
Cash paid for purchase of property, equipment and other assets		**(17,048)**	(16,011)
NET CASH USED IN INVESTING ACTIVITIES		**(439,087)**	(481,061)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from issues of shares		**100,007**	–
Cash received from debt securities issued		**1,310,162**	676,543
Repayments of debt securities issued		**(1,021,557)**	(579,791)
Cash payments for interest on debt securities issued		**(21,844)**	(10,564)
Cash payments for transaction cost of debt securities issued		**(96)**	(35)
Cash payments for transaction cost of shares issued		**(36)**	–
Capital contribution from non-controlling interests		**749**	–
Dividends paid to ordinary shareholders		**(57,911)**	(55,215)
Dividends paid to preference shareholders		**(4,600)**	(4,600)
Dividends paid to non-controlling interests		**(1)**	–
NET CASH FROM FINANCING ACTIVITIES		**304,873**	26,338
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(28,287)**	178,694
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**1,001,246**	827,698
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**5,482**	(5,146)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	39	**978,441**	1,001,246
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**515,982**	512,568
Interest paid		**(286,484)**	(258,761)

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

I GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking and Insurance Regulatory Commission (the former "China Banking and Regulatory Commission, CBRC" and "China Insurance Regulatory Commission, CIRC", the "CBIRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as the "Domestic Operations". Branches and subsidiaries registered and operating outside of the Mainland China are referred to as the "Overseas Operations".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622) for this financial year and the comparative period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

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

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with the transition date of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the Group's consolidated financial statements.

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 recognized in the opening retained earnings and other components of reserves in the current year. For notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current year. The comparative year 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. Specific accounting policies which have been significantly impacted by IFRS 9 are described in Note II 12 and Note II 27.

2.1 The measurement category and the carrying amount of financial instruments

The measurement category and the carrying amount of financial instruments in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	Measurement categories	Carrying amount	Measurement categories	Carrying amount
Cash and balances with central banks	Amortized cost	2,896,619	Amortized cost	2,896,619
Deposits with banks and other financial institutions	Amortized cost	130,245	Amortized cost	129,950
Placements with and loans to banks and other financial institutions	Amortized cost	505,269	Amortized cost	504,822
Derivative financial assets	Fair value through profit or loss	28,284	Fair value through profit or loss	28,284
Financial assets held under resale agreements	Amortized cost	540,386	Amortized cost	538,796
Loans and advances to customers	Amortized cost	10,316,311	Amortized cost	10,040,513
			Fair value through other comprehensive income	253,324
Investment in financial instruments	Fair value through profit or loss	577,965	Fair value through profit or loss ("FVPL")	643,197
	Fair value through other comprehensive income (Available-for-sale financial assets)	1,426,420	Fair value through other comprehensive income ("FVOCI")	1,481,014
	Amortized cost (Held-to-maturity investments)	3,489,135	Amortized cost ("AC")	4,034,843
	Amortized cost (Debt instruments classified as receivables)	659,223		
Other financial assets	Amortized cost	155,111	Amortized cost	152,807

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.1 The measurement category and the carrying amount of financial instruments (Continued)

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income. This change does not have a significant impact on the Group's consolidated financial statements.

2.2 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:

Amortized cost	31 December 2017 IAS 39 carrying amount	Reclassification	Remeasurement	1 January 2018 IFRS 9 carrying amount
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	2,896,619			2,896,619
Deposits with banks and other financial institutions				
Opening balance under IAS 39	130,245			
Remeasurement: ECL allowance			(295)	
Closing balance under IFRS 9				129,950
Placements with and loans to banks and other financial institutions				
Opening balance under IAS 39	505,269			
Remeasurement: ECL allowance			(447)	
Closing balance under IFRS 9				504,822

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

Amortized cost (Continued)	31 December 2017 IAS 39 carrying amount	Reclassification	Remeasurement	1 January 2018 IFRS 9 carrying amount
Financial assets held under resale agreements				
Opening balance under IAS 39	540,386			
Remeasurement: ECL allowance			(1,590)	
Closing balance under IFRS 9				538,796
Loans and advances to customers				
Opening balance under IAS 39	10,316,311			
Subtraction: To FVOCI (IFRS 9)		(248,457)		
Remeasurement: ECL allowance			(27,341)	
Closing balance under IFRS 9				10,040,513
Debt instrument investments at amortized cost				
Opening balance under IAS 39	–			
Addition: From financial assets held to maturity (IAS 39)		3,240,292		
Remeasurement: ECL allowance			1,153	
Addition: From debt instruments classified as receivables (IAS 39)		649,971		
Remeasurement: ECL allowance			311	
Addition: From available-for-sale financial assets (IAS 39)		137,792		
Remeasurement: From fair value ("FV") to AC			5,882	
Remeasurement: ECL allowance			(558)	
Closing balance under IFRS 9				4,034,843
Held-to-maturity investments				
Opening balance under IAS 39	3,489,135			
Subtraction: To AC (IFRS 9)		(3,240,292)		
Subtraction: To FVPL (IFRS 9)		(17,822)		
Subtraction: To FVOCI (IFRS 9)		(231,021)		
Closing balance under IFRS 9				–

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

Amortized cost (Continued)	31 December 2017 IAS 39 carrying amount	Reclassification	Remeasurement	1 January 2018 IFRS 9 carrying amount
Debt instruments classified as receivables				
Opening balance under IAS 39	659,223			
Subtraction: To AC (IFRS 9)		(649,971)		
Subtraction: To FVPL (IFRS 9)		(8,646)		
Subtraction: To FVOCI (IFRS 9)		(606)		
Closing balance under IFRS 9				–
Other financial assets				
Opening balance under IAS 39	155,111			
Subtraction: To FVPL (IFRS 9)		(2,302)		
Remeasurement: ECL allowance			(2)	
Closing balance under IFRS 9				152,807
Gross financial assets at amortized cost	18,692,299	(371,062)	(22,887)	18,298,350

Fair value through profit or loss	31 December 2017 IAS 39 carrying amount	Reclassification	Remeasurement	1 January 2018 IFRS 9 carrying amount
Financial assets at fair value through profit or loss				
Opening balance under IAS 39	577,965			
Addition: From available-for-sale financial assets (IAS 39)		37,348		
Addition: From financial assets held to maturity (IAS 39)		17,822		
Remeasurement: From AC to FV			(422)	
Addition: From debt instruments classified as receivables (IAS 39)		8,646		
Remeasurement: From AC to FV			110	
Addition: From other assets (IAS 39)		2,302		
Subtraction: To FVOCI		(574)		
Closing balance under IFRS 9				643,197
Gross financial assets at fair value through profit or loss	577,965	65,544	(312)	643,197

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

Fair value through other comprehensive income	31 December 2017 IAS 39 carrying amount	Reclassification	Remeasurement	1 January 2018 IFRS 9 carrying amount
Loans and advances to customers				
Opening balance under IAS 39	–			
Addition: From AC		248,457		
Remeasurement: From AC to FV			4,867	
Closing balance under IFRS 9				253,324
Fair value through other comprehensive income (Debt instruments)				
Opening balance under IAS 39	–			
Addition: From financial assets held to maturity (IAS 39)		231,021		
Remeasurement: From AC to FV			(2,482)	
Addition: From debt instruments classified as receivables (IAS 39)		606		
Remeasurement: From AC to FV			15	
Addition: From available-for-sale financial assets (IAS 39)		1,249,930		
Addition: From FVPL (IAS 39)		574		
Closing balance under IFRS 9				1,479,664
Fair value through other comprehensive income (Equity instruments)				
Opening balance under IAS 39	–			
Addition: From available for sale (IAS 39)		1,350		
Closing balance under IFRS 9				1,350

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Changes in principal accounting policies (Continued)

2.2 *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)*

Fair value through other comprehensive income (Continued)	31 December 2017 IAS 39 carrying amount	Reclassification	Remeasurement	1 January 2018 IFRS 9 carrying amount
Available-for-sale financial assets				
Opening balance under IAS 39	1,426,420			
Subtraction: To FVPL (IFRS 9)		(37,348)		
Subtraction: To AC (IFRS 9)		(137,792)		
Subtraction: To FVOCI – debt instruments (IFRS 9)		(1,249,930)		
Subtraction: To FVOCI – equity instruments (IFRS 9)		(1,350)		
Closing balance under IFRS 9				–
Gross financial assets at fair value through other comprehensive income	1,426,420	305,518	2,400	1,734,338

Due to the impact of classification, measurement and impairment, the investment revaluation reserve and retained earnings of the Group were increased by RMB9,891 million and decreased by RMB36,457 million, respectively. The impact on deferred tax of the Group is disclosed in Note IV 23.

2.3 *Reconciliation of impairment allowance and provision balance from IAS 39 to IFRS 9*

The following table reconciles the prior year's closing impairment allowance and provision measured in accordance with IAS 39 incurred loss model and IAS 37 to the impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Loan loss allowance under IAS 39/ Provision under IAS 37	Reclassification	Remeasurement	Loan loss allowance/ Provision under IFRS 9
Deposits with banks and other financial institutions	89	–	295	384
Placements with and loans to banks and other financial institutions	938	–	447	1,385
Financial assets held under resale agreements	–	–	1,590	1,590
Loans and advances to customers	404,300	(5,318)	32,293	431,275
Held-to-maturity investments and debt instruments classified as receivables (IAS 39)/Debt instrument investments at amortized cost (IFRS 9)	10,526	(1,456)	(906)	8,164
Other financial assets	7,840	(4,004)	2	3,838
Total	423,693	(10,778)	33,721	446,636
Loan commitments and financial guarantee contracts	3,536	–	15,362	18,898

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3 Other amendments to the accounting standards effective in 2018 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2018.

(1)	IFRS 15	Revenue from Contracts with Customers
(2)	Amendments to IAS 28	Investments in Associates and Joint Ventures – included in the Annual Improvements to IFRSs 2014 – 2016 Cycle
(3)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
(4)	Amendments to IAS 40	Transfer of Investment Property
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration

(1) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

(2) Amendments to IAS 28: Investments in Associates and Joint Ventures – included in the Annual Improvements to IFRSs 2014 – 2016 Cycle

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

(3) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

On 12 September 2016, the IASB issued amendments to IFRS 4 – Insurance Contracts. Applying IFRS 9 Financial Instruments with IFRS 4, which provide two alternative measures to address the different effective dates of IFRS 9 and the new insurance contracts standard IFRS 17. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 to 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the new insurance contracts standard IFRS 17 is applied.

(4) Amendments to IAS 40: Transfer of Investment Property

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

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3 Other amendments to the accounting standards effective in 2018 relevant to and adopted by the Group (Continued)

(5) IFRIC 22: Foreign Currency Transactions and Advance Consideration

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

The adoption of the above amendments does not have a significant impact on the operation results, comprehensive income and financial position of the Group.

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	IFRS 16	Leases	1 January 2019
(2)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(3)	Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
(4)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019
(5)	Amendments to IAS 19	Employee Benefits' Regarding Plan Amendment, Curtailment or Settlement	1 January 2019
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
(7)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(8)	Amendments to IFRS 3	The Definition of A Business	1 January 2020
(9)	IFRS 17	Insurance Contracts	1 January 2021
(10)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(1) *IFRS 16: Leases*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term, that, at the commencement date, has a lease term of 12 months or less, and low-value leases, of which the underlying assets with a value, when new, in the order of magnitude of US$5,000 or less.

At the end of the reporting period, the Group has non-cancellable operating lease commitments of RMB10,606 million (see Note IV 43).

At the adoption date, the Group will measure the lease liability of these operating lease commitments at the present value of the lease payments not yet paid at the incremental borrowing rate. The cost of the right of use asset shall comprise of the measurement of the liability and any adjustments from prepaid lease payments. Under the new standard, the Group's activities as a lessee have no material impacts on the net asset of the Group.

(2) *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 Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(3) *Amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities*

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

(4) *Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015 – 2017 Cycle*

The Annual Improvements to IFRSs 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 Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(5) *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 Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(6) *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 companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(7) *Amendments to IAS 1 and IAS 8: The Definition of Material*

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(8) *Amendments to IFRS 3: The Definition of A Business*

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(9) IFRS 17: Insurance Contracts

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

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

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

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

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

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

(10) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

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

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

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Consolidation

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, 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.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

All intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Consolidation (Continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisition of associates is included in investment in associates.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions.

The post-acquisition profit or loss of an associate is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of loss of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate; when that is the case, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 – Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Interest income and expenses

Interest income and expenses of financial instruments are calculated using the effective interest method and included in the current profit and loss.

The Group uses the effective interest method to calculate the interest income and expenses of financial assets and liabilities measured at amortized cost, presented as "interest income" and "interest expenses" respectively. For specific accounting policies, please refer to the Note II 12.4 subsequent measurement of financial instruments.

7 Fee and commission income – Accounting policies applied from 1 January 2018

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.

For the performance obligations satisfied at a point in time, the Group recognizes revenue when control is passed to the customer at a certain point in time, including insurance agency fee, merchant acquiring service fee, settlement & clearing services and bond underwriting fee, etc. For the performance obligations satisfied over time, the Group recognizes revenue according to the progress toward satisfaction of the obligation over the time, including consultancy and advisory fee and custodial fee, etc.

8 Fee and commission income – Accounting policies applied prior to 1 January 2018

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a specified period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognized at the time the services are completed.

9 Foreign currency transactions

The functional currency of the Domestic Operations is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise, except for the following:

(i) exchange differences arising on a monetary item that forms part of the Bank's net investment in the Overseas Operations;

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9 Foreign currency transactions (Continued)

(ii) changes in the fair value of monetary assets denominated in foreign currency classified as financial investments at fair value through comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's Overseas Operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their 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. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the foreign currency translation reserve and non-controlling interests, as appropriate. The accumulated foreign currency translation reserve related to the Overseas Operations will be reclassified from equity to the consolidated income statement on disposal of all or part of the Overseas Operations.

10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10 Taxation (Continued)

Deferred tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that the temporary difference will not reverse in the foreseeable future or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Value-added Taxes ("VAT")

The Group's interest income, fee and commission income, trading gain on financial products and insurance premium income are presented net of their respective VAT in the consolidated financial statements.

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at 3% for taxable asset management activities undertaken after 1 January 2018.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period in which the related payment obligation is incurred.

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits as determined in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018

12.1 Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

(1) Financial assets

Financial assets are classified in the following measurement categories based on the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) Amortized cost ("AC");

(ii) Fair value through other comprehensive income ("FVOCI"); or

(iii) Fair value through profit or loss ("FVPL").

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic leading arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.1 Initial recognition, classification and measurement of financial instruments (Continued)

(1) Financial assets (Continued)

The classification requirements for debt instruments and equity instruments are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and measurement of debt instruments depend on the Group's business models for managing the asset and the cash flow characteristics of asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

(i) AC: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortized cost.

(ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI.

(iii) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.1 Initial recognition, classification and measurement of financial instruments (Continued)

(2) Financial liabilities

The Group's financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at amortized 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 entity's key management personnel.

(iii) The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise requred.

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expenses incurred on the financial liability.

12.2 Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

12.3 Determination of fair value

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.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.3 Determination of fair value (Continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

12.4 Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

(1) Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any loss allowance.

Interest income and interest expenses from these financial assets is included in "Interest income" and "interest expenses" using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. 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 (definition on Note IV 45.1), the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for:

(i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and

(ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e.net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.4 *Subsequent measurement of financial instruments (Continued)*

(2) *Fair value through other comprehensive income*

Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Equity instruments

The equity instrument investments that are not held for trading are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established.

(3) *Financial assets at fair value through profit or loss*

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net trading gain/(loss)" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in "Net gain/(loss) on financial investments".

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Net trading gain/(loss)" in the consolidated income statement.

(4) *Financial liabilities at fair value through profit or loss*

Financial liabilities at FVPL are measured at fair value with all gains or losses recognized 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:

(i) changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognized in other comprehensive income; and

(ii) other changes in fair value of such financial liabilities are recognized in profit or loss of the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group recognizes all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss of the current period.

When the liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.5 Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and exposures arising from some loan commitments and financial guarantee contracts.

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, which are 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 reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) 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.

For financial instruments whose impairment losses are measured using the ECL models, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

– Stage I: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage I.

– Stage II: If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is moved to Stage II. The description of how the Group determines when a significant increase in credit risk has occurred is disclosed in Note IV 45.1.

– Stage III: If the financial instrument is credit-impaired, the financial instrument is then moved to Stage III. The definition of credit-impaired financial assets is disclosed in Note IV 45.1.

Financial instruments in Stage I have their ECL measured at an amount equivalent to the ECL of the financial asset for the next 12 months (“12m ECL”). Financial instruments in Stage II or Stage III have their ECL measured at an amount equivalent to the ECL over the lifetime of the financial instruments (“Lifetime ECL”). The description of inputs, assumptions and estimation techniques used in measuring the ECL is disclosed in Note IV 45.1.

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.5 *Impairment of financial instruments (Continued)*

If the Group has measured the loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses 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-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI financial assets, at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

12.6 *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 the new terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes 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 recognized 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 recognized 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 recognizes 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).

12.7 *Derecognition*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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 recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12 Financial instruments – Accounting policies applied from 1 January 2018 (Continued)

12.8 Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement.

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:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) 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 recognized in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

12.9 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

12.10 Repurchase agreements and agreements to resell

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as held-to-maturity investments, available-for-sale financial assets or debt instruments classified as receivables as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note IV 43 Contingent Liabilities and Commitments – Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related collateral accepted is not recognized in the consolidated financial statements (Note IV 43 Contingent Liabilities and Commitments – Collateral).

The difference between the purchase and sale price is recognized as interest expense or income in the consolidated income statement over the term of the agreements using the effective interest method.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018

Financial assets and liabilities are recognized in the consolidated statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in the consolidated income statement.

13.1 Financial assets

The Group's financial assets are classified into four categories – financial assets at FVPL, held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVPL have two subcategories – financial assets held for trading and those designated at FVPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVPL.

Financial assets at FVPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.1 *Financial assets* (Continued)

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 maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets classified as loans and receivables primarily include deposits with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, and specified debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the consolidated income statement.

Equity investments classified as available-for-sale that do not have a quoted price in an active market and whose fair value cannot be reliably determined are measured at cost, less any impairment losses, at the end of each reporting period.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method and recorded as an element of interest income in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Group's right to receive such payments is established.

Impairment of financial assets

Financial assets, other than those classified as FVPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the financial assets have been adversely affected.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.1 Financial assets (Continued)

Impairment of financial assets (Continued)

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for all corporate loans, debt instruments 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 it for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, an impairment loss is recognized in the consolidated income statement 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 collaterized financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

The carrying amount of an impaired financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.1 Financial assets (Continued)

Impairment of financial assets carried at amortized cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment of financial assets classified as available-for-sale

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative losses previously recognized in other comprehensive income are reclassified to the consolidated income statement in the period in which the impairment takes place.

An impairment loss on an equity investment classified as available-for-sale, and carried at fair value, is not reversed through the consolidated income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. An impairment loss on an equity investment classified as available-for-sale equity investment, and carried at cost, is not reversed. An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through the consolidated income statement if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

13.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument in IAS 39 and IAS 32, respectively.

The Group's financial liabilities are generally classified into financial liabilities at FVPL and other financial liabilities, carried at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL have two subcategories, including financial liabilities held for trading and those designated at FVPL on initial recognition.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13 Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

13.2 Financial liabilities (Continued)

***Financial liabilities at fair value through profit or loss** (Continued)*

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

The criteria for a financial liability designated at FVPL is the same as those for a financial asset designated at FVPL.

Financial liabilities at FVPL are stated at fair value, with changes in fair value arising on re-measurement recognized directly in the consolidated income statement in the period in which they arise.

Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method.

13.3 Equity instruments

An equity instrument is any contract that represents a residual interest in the assets of the Group after deducting all of its 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 unfavourable 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 instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14 Insurance contracts

Insurance contract classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to the reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 – Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy.

When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities will be recorded if any deficiency exists.

15 Precious metals

Precious metals comprise gold, silver and other precious metals.

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. 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 and equipment.

Subsequent expenditure incurred for the property and equipment (other than construction in progress) is included in the cost of the property and equipment (other than construction in progress) if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured, and the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation is recognized as a component of operating expenses in the consolidated income statement so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	5-50 years	3%	1.94%-19.40%
Electronic equipment, furniture and fixtures	3-11 years	3%	8.82%-32.33%
Motor vehicles	5-8 years	3%	12.13%-19.40%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income or operating expenses in the consolidated income statement. The accounting policies of impairment of property and equipment are included in Note II 23 Impairment of Tangible and Intangible Assets other than Goodwill.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

17 Land use rights

Land use rights are classified in other assets and amortized over a straight-line basis over their authorized useful lives.

18 Foreclosed assets

Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated income statement in the period in which the item is disposed.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

19 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditure incurred for the investment property is included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

The accounting policies of impairment of investment property are included in Note II 23 Impairment of Tangible and Intangible Assets other than Goodwill.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

20 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

When the Group is the lessor in a finance lease, an amount representing the minimum lease payment receivables and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment") is recorded in the consolidated statement of financial position as Loans and advances to customers. The difference between the net lease investment and the undiscounted amount is recorded as unearned finance income, amortizing over the term of the lease using the effective interest method and recognized in the consolidated income statement.

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as other operating income in the consolidated income statement on a straight-line basis over the term of the related lease.

The Group as lessee

When the Group is a lessee under finance leases, the leased assets are capitalized under property and equipment initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated income statement. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

When the Group is the lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated income statement on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

21 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

22 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 20 years.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

23 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

24 Dividend distribution

Dividend distribution to the Bank's ordinary equity holders is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the ordinary equity holders in the annual general meeting of the Bank.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

25 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

26 Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

27 Financial guarantee contracts and loan commitments – Accounting policies applied from 1 January 2018

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 recognized 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 amortization of guarantee fees, and the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

The impairment allowance of loan commitments provided by the Group is measured using ECL models. 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 recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

28 Financial guarantee contracts – Accounting policies applied prior to 1 January 2018

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 recognized 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 amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

29 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized, but disclosed, unless the possibility of an outflow of resources embodying economic benefits is probable. The Group's contingent liabilities are disclosed in Note IV 43 Contingent Liabilities and Commitments.

A provision is recognized when it meets the criteria as set forth in Note II 25 Provisions.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note II, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods as appropriate.

The following are the critical judgments and key estimates management has made in the process of applying the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (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 IV 45.1 Credit risk.

2 Classification of financial assets

The critical judgments the Group has made 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 how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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; whether interests only included time value of money, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, whether 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.

3 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

4 Taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

5 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

6 Derecognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements, securities lending. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial derecognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes 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 derecognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the derecognition 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 qualifies 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. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that affect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Derecognition of financial assets transferred (Continued)

- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets by assessing whether the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognizes these financial assets and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognize these financial assets to the extent of its continuing involvement in the financial asset.

Critical accounting estimates and judgements in accounting policies applied prior to 1 January 2018

(1) Impairment losses on 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 recognized in the consolidated income statement of profit and 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 II 12.5 Impairment of Financial Assets Carried at Amortized 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 such as overdue status, financial position of guarantors, latest collateral valuations and concessions by 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 customer defaults on loans and advances. These judgments are made both during management’s regular assessments of the quality of loans and advances to customers’ quality 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 and guarantors, latest collateral valuations and other available information, 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 customers’ defaults of related borrowers.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements in accounting policies applied prior to 1 January 2018 (Continued)

(1) Impairment losses on loans and advances to customers (Continued)

Corporate loans and advances to customers not identified as impaired from individual assessments, together with personal loans and advances to customers are included in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. 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) loss identification period for incurred but unidentified impairment losses; (iii) industries 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 methodology and assumptions used for loss estimation and makes adjustments where appropriate.

(2) Held-to-maturity investments

The Group classifies non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. In assessing the Group's intention and ability to hold such investments to maturity, management primarily considers the business purpose for acquiring a security, as well as the Group's liquidity needs. This is a significant judgment because if the Group fails to hold these investments to maturity, other than for specific and limited circumstances (e.g., sale of an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets and be precluded from classifying investments as held-to-maturity investments for the next two years.

(3) Impairment of other financial assets

For held-to-maturity investments and financial instruments classified as receivables, the determination of whether such an investment is impaired requires significant judgment. Objective evidence that a financial asset or group of financial assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence of impairment on expected future cash flows of the investment is taken into account.

For available-for-sale investments, the determination of whether such an investment is impaired requires significant judgment. In making this judgment, the Group considers the duration and extent to which the fair value of an investment is less than its cost; or whether other objective evidence of impairment exists based on the financial health of and near-term business outlook for the investee or issuer, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

		Year ended 31 December 2018	2017
Interest income			
Loans and advances to customers		**502,616**	441,475
Including: Corporate loans and advances		**303,054**	274,039
Personal loans and advances		**191,775**	158,323
Discounted bills		**7,787**	9,113
Balances with central banks		**40,701**	41,604
Placements with and loans to banks and other financial institutions		**14,442**	13,060
Financial assets held under resale agreements		**9,025**	9,745
Deposits with banks and other financial institutions		**1,822**	7,340
Financial investments			
Debt instrument investments at amortized cost		**157,909**	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income		**58,209**	N/A
Financial assets held for trading	(i)	**N/A**	4,110
Financial assets designated at fair value through profit or loss	(i)	**N/A**	371
Available-for-sale financial assets		**N/A**	49,070
Held-to-maturity investments		**N/A**	123,270
Debt instruments classified as receivables		**N/A**	23,654
Subtotal		**784,724**	713,699
Interest expense			
Due to customers		**(227,819)**	(209,782)
Deposits from banks and other financial institutions		**(28,303)**	(24,995)
Debt securities issued		**(23,094)**	(13,772)
Borrowings from central bank		**(15,823)**	(13,254)
Placements from banks and other financial institutions		**(8,888)**	(6,240)
Financial assets sold under repurchase agreements		**(3,037)**	(3,488)
Financial liabilities at fair value through profit or loss	(i)	**N/A**	(238)
Subtotal		**(306,964)**	(271,769)
Net interest income		**477,760**	441,930

(i) *After the implementation of IFRS 9 in 2018, interest income from financial assets at FVPL and interest expense from financial liabilities at FVPL are disclosed in Note IV 3 Net trading gain/(loss).*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December 2018	2017
Fee and commission income		
Bank cards	**25,586**	22,699
Agency services	**20,929**	22,773
Electronic banking services	**19,640**	14,595
Settlement and clearing services	**10,680**	11,113
Consultancy and advisory services	**8,876**	8,358
Custodian and other fiduciary	**3,598**	3,368
Credit commitment	**1,782**	2,094
Others	**434**	257
Subtotal	**91,525**	85,257
Fee and commission expense		
Bank cards	**(7,323)**	(7,328)
Electronic banking services	**(3,193)**	(2,623)
Settlement and clearing services	**(2,004)**	(1,487)
Others	**(864)**	(916)
Subtotal	**(13,384)**	(12,354)
Net fee and commission income	**78,141**	72,903

3 Net trading gain/(loss)

	Year ended 31 December 2018	2017
Net gain/(loss) on debt instruments held for trading	**14,253**	(2,731)
Net gain on precious metals (i)	**2,666**	3,883
Net gain/(loss) on foreign exchange rate derivatives	**1,487**	(9,703)
Net gain/(loss) on interest rate derivatives	**516**	(278)
Others	**(2,853)**	N/A
Total	**16,069**	(8,829)

(i) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Net gain/(loss) on financial investments

	Year ended 31 December	
	2018	2017
Net gain on debt securities at FVPL	**2,179**	1,022
Net gain on debt instruments measured at FVOCI	**304**	136
Net gain/(loss) on underlying assets and liabilities related to principal guaranteed wealth management products designated as at FVPL	**5,984**	(5,306)
Others	**(7)**	1,040
Total	**8,460**	(3,108)

5 Other operating income

	Year ended 31 December	
	2018	2017
Insurance premium	**17,365**	21,899
Net (loss)/gain on foreign exchange	**(726)**	11,021
Government grant	**1,018**	3,757
Gain on disposal of property and equipment	**1,104**	850
Rental income	**785**	538
Others	**2,551**	1,937
Total	**22,097**	40,002

6 Operating expenses

		Year ended 31 December	
		2018	2017
Staff costs	(1)	**123,614**	113,839
General operating and administrative expenses	(2)	**47,173**	45,024
Insurance benefits and claims		**17,652**	22,552
Depreciation and amortization		**16,413**	18,279
Tax and surcharges	(3)	**5,330**	4,953
Provision for guarantees and commitments	(4)	**N/A**	(2,985)
Others		**3,781**	3,606
Total		**213,963**	205,268

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Operating Expenses (Continued)

(1) Staff costs

	Year ended 31 December 2018	2017
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	**75,976**	73,140
Housing funds	**8,328**	8,212
Social insurance	**5,371**	5,109
Including: Medical insurance	**4,829**	4,611
Maternity insurance	**381**	330
Employment injury insurance	**161**	168
Labor union fees and staff education expenses	**3,365**	3,269
Others	**12,469**	8,799
Subtotal	**105,509**	98,529
Defined contribution benefits	**17,848**	15,233
Early retirement benefits	**257**	77
Total	**123,614**	113,839

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB197 million for the year, consisting of RMB130 million for financial statements audit service and RMB67 million for non-audit professional service. (2017: RMB143 million, consisting of RMB133 million for financial statements audit service and RMB10 million for non-audit professional service).

(3) From 1 May 2016, the Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from insurance business and trading of financial products at 6%.

Pursuant to the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs" (Cai Shui [2016] No. 46), the Bank elected to adopt a simplified methodology to calculate value-added taxes at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank's pilot programs of the Sannong Finance Division, including those under the Bank's provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

City construction and maintenance tax is calculated at 1%, 5% or 7% of VAT for the Group's Domestic Operations.

Education surcharge is calculated at 3% or 5% of VAT for the Group's Domestic Operations.

(4) After the implementation of IFRS 9 in 2018, provision for guarantees and commitments was reclassified to credit impairment losses (Note IV 8).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB):

		Year ended 31 December 2018				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvi)	Total
Executive Directors						
Zhou Mubing		–	546	123	35	704
Wang Wei	(i)	–	491	120	35	646
Independent Non-Executive Directors						
Wen Tiejun		410	–		–	410
Francis Yuen Tin-fan		380	–		–	380
Xiao Xing		380	–		–	380
Wang Xinxin		360	–		–	360
Huang Zhenzhong		360	–		–	360
Non-Executive Directors						
Hu Xiaohui	(ii)	–	–	–	–	–
Xu Jiandong		–	–	–	–	–
Chen Jianbo		–	–	–	–	–
Liao Luming		–	–	–	–	–
Li Qiyun	(iii)	–	–	–	–	–
Supervisors						
Wang Jingdong	(iv)	–	182	48	12	242
Wang Xingchun		–	–	–	–	–
Liu Chengxu		50	–	–	–	50
Xia Taili	(v)	21	–	–	–	21
Shao Lihong	(v)	21	–	–	–	21
Li Wang	(vi)	280	–	–	–	280
Zhang Jie	(vi)	43	–	–	–	43
Liu Hongxia	(vi)	41	–	–	–	41
Senior Management						
Gong Chao	(vii)	–	491	120	35	646
Zhang Keqiu		–	491	120	35	646
Li Zhicheng		–	949	180	35	1,164
Zhou Wanfu	(viii)	–	632	117	24	773

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): *(Continued)*

Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvi)	Total
		Year ended 31 December 2018				
Executive Director resigned						
Zhao Huan	(ix)	–	410	91	25	526
Guo Ningning	(x)	–	410	99	28	537
Non-Executive Directors resigned						
Zhao Chao	(xi)	–	–		–	–
Zhang Dinglong	(xii)	–	–		–	–
Supervisors resigned						
Xia Zongyu	(xiii)	34	–		–	34
Lv Shuqin	(xiv)	241	–		–	241
Senior Management resigned						
Kang Yi	(xv)	–	41	10	2	53
Total		2,621	4,643	1,028	266	8,558

(i) *Wang Wei was elected Executive Director effective 13 February 2018.*

(ii) *Hu Xiaohui ceased to be Non-Executive Director effective 9 January 2019, and his emoluments disclosed above only include those for services rendered by him as the Senior Management for the year ended 31 December 2018.*

(iii) *Li Qiyun was elected Non-Executive Director effective 1 June 2018.*

(iv) *Wang Jingdong was elected Supervisor representing shareholders effective 12 November 2018, and Chairman of the Board of Supervisors effective 13 November 2018.*

(v) *Xia Taili and Shao Lihong were elected Supervisor representing employees effective 21 August 2018.*

(vi) *Li Wang, Zhang Jie and Liu Hongxia were elected External Supervisors effective 12 November 2018.*

(vii) *Gong Chao ceased to be Secretary of the Party Displine Committee effective 2 January 2019.*

(viii) *Zhou Wanfu was elected Secretory of the Board of Directors effective 12 March 2018.*

(ix) *Zhao Huan cased to be Vice Chaireman, Executive Director and President effective 29 September 2019.*

(x) *Guo Ningning was elected Executive Director effective 13 February 2018. She ceased to be Executive Director effective 22 October 2018.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): *(Continued)*

(xi) *Zhao Chao ceased to be Non-Executive Director effective 28 February 2018.*

(xii) *Zhang Dinglong ceased to be No-Executive Director effective 11 May 2018.*

(xiii) *Xia Zongyu ceased to be Supervisor representing employees effective 22 August 2018.*

(xiv) *Lv Shuqin resigned as Supervisor due to the expiry of her term of office in 29 June 2018. Lv Shuqin will continue to perform her duty as Supervisor until meet the requirement that the Supervisors shall represent at least one-third of the Board of Supervisors. She ceased to be Supervisor effective 12 November 2018.*

(xv) *Kang Yi ceased to be Vice Chairman effective 22 January 2018.*

(xvi) *Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.*

The total compensation packages for the above Executive Directors, Supervisors and Senior Management for the year ended 31 December 2018 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC at the date of this consolidated financial statements. The final compensation will be disclosed in a separate announcement when determined.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): *(Continued)*

		Year ended 31 December 2017 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xx)	Total
Executive Directors						
Zhou Mubing		–	974	81	68	1,123
Zhao Huan	(i)	–	1,041	81	68	1,190
Wang Wei	(ii)	–	1,064	78	68	1,210
Guo Ningning	(iii)	–	888	78	68	1,034
Independent Non-Executive Directors						
Wen Tiejun	(iv)	410	–	–	–	410
Francis Yuen Tin-fan		380	–	–	–	380
Xiao Xing		380	–	–	–	380
Wang Xinxin		360	–	–	–	360
Huang Zhenzhong	(v)	97	–	–	–	97
Non-Executive Directors						
Zhao Chao	(vi)(vii)	–	–	–	–	–
Zhang Dinglong	(vi)	–	–	–	–	–
Chen Jianbo	(vi)	–	–	–	–	–
Hu Xiaohui	(vi)	–	–	–	–	–
Xu Jiandong	(vi)	–	–	–	–	–
Liao Luming	(vi)(viii)	–	–	–	–	–
Supervisors						
Wang Xingchun	(ix)	–	–	–	–	–
Liu Chengxu	(x)	50	–	–	–	50
Xia Zongyu	(x)	50	–	–	–	50
Li Wang		280	–	–	–	280
Lv Shuqin		280	–	–	–	280
Senior Management						
Gong Chao		–	1,065	78	68	1,211
Kang Yi	(xi)	–	805	78	67	950
Zhang Keqiu	(xii)	–	1,249	128	67	1,444
Li Zhicheng	(xiii)	–	1,475	97	49	1,621
Executive Director resigned						
Lou Wenlong	(xiv)	–	212	25	22	259

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB): *(Continued)*

		Year ended 31 December 2017 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xx)	Total
Independent Non-Executive Directors resigned						
Lu Jianping	(xv)	–	–	–	–	–
Non-Executive Directors resigned						
Zhou Ke	(xvi)	–	–	–	–	–
Supervisors resigned						
Yuan Changqing	(xvii)	–	684	39	30	753
Zheng Xin	(xviii)	4	–	–	–	4
Xia Taili	(xix)	50	–	–	–	50
Total		2,341	9,457	763	575	13,136

(i) *Zhao Huan is also the Senior Management of the Group and his emoluments disclosed above include those for services rendered by him as the Senior Management for the year ended 31 December 2017.*

(ii) *Wang Wei was elected to be Executive Director effective 13 February 2018 and his emoluments disclosed above only include those for services rendered by him as the Senior Management for the year ended 31 December 2017.*

(iii) *Guo Ningning was elected to be Executive Director effective 13 February 2018 and her emoluments disclosed above only include those for services rendered by her as the Senior Management for the year ended 31 December 2017.*

(iv) *Wen Tiejun resigned as Independent Non-Executive Director and from positions at relevant special committees of the Board of the Bank due to the expiry of his term of office in June 2017. Wen Tiejun will continue to perform his duty as Independent Non-Executive Director until meet the requirement that the Independent Non-Executive Directors shall represent at least one-third of the Board of Directors.*

(v) *Huang Zhenzhong was elected Independent Non-Executive Director effective 25 September 2017.*

(vi) *These Non-Executive Directors of the Bank did not receive any fees from the Bank. Their emoluments were borne by the major ordinary equity holders of the Bank. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the major ordinary equity holders of the Bank.*

(vii) *Zhao Chao ceased to be Non-Executive Director effective 28 February 2018.*

(viii) *Liao Luming was elected Non-Executive Director effective 31 August 2017.*

(ix) *Wang Xingchun did not receive any emoluments for his part-time position as Supervisor representing shareholders from the Bank in 2017.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) *Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):*

(x) For Supervisors representing employees of the Bank, the amounts set forth above only included fees for their services as Supervisors.

(xi) Kang Yi was elected Executive Vice President effective 24 January 2017. He ceased to be Executive Vice President effective 22 Janurary 2018.

(xii) Zhang Keqiu was elected Executive Vice President effective 28 July 2017.

(xiii) Li Zhicheng was elected Chief Risk Officer effective 28 February 2017.

(xiv) Lou Wenlong ceased to be Executive Vice President and Executive Director effective 18 April 2017.

(xv) Lu Jianping ceased to be Independent Non-Executive Director effective 18 April 2017.

(xvi) Zhou Ke ceased to be Non-Executive Director effective 31 July 2017.

(xvii) Yuan Changqing ceased to be Chairman of the Board of Supervisors effective 6 June 2017.

(xviii) Zheng Xin ceased to be Supervisor representing employees effective 9 January 2017.

(xix) Xia Taili ceased to be Supervisor representing employees effective 4 December 2017.

(xx) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

As of the approval date of 2017 consolidated financial statements, the above compensation packages for the Directors, Supervisors and Senior Management for the year ended 31 December 2017 were not finalized and the amount of remuneration of Directors, Supervisors and Senior Management recognized and disclosed in the consolidated income statement for the year ended 31 December 2017 was RMB8.52 million. Supplementary announcement on final compensation of RMB13.14 million was released by the Bank on 28 August 2018 and the comparative figures for the year ended 31 December 2017 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(2) Five individuals with the highest emoluments in the Group

(i) Of the five individuals with the highest emoluments, none of them are Directors, Supervisors or Senior Management whose emoluments are disclosed above. The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 and 31 December 2017 were as follows:

	Year ended 31 December	
	2018	2017
Basic salaries and allowance	**14**	11
Discretionary bonuses	**10**	10
Contribution to retirement benefit schemes and other	**1**	2
Total	**25**	23

(ii) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December	
	2018	2017
RMB4,000,001 to RMB4,500,000 yuan	**1**	2
RMB4,500,001 to RMB5,000,000 yuan	**2**	2
RMB5,000,001 to RMB5,500,000 yuan	**1**	1
RMB5,500,001 to RMB6,000,000 yuan	**1**	–

For the years ended 31 December 2018 and 31 December 2017, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. For the years ended 31 December 2018 and 31 December 2017, none of the five highest paid individuals waived any emolument.

(3) Other benefits and interests of Directors and Supervisors pursuant to the Hong Kong Companies Ordinance (Cap.622).

For the years ended 31 December 2018 and 31 December 2017, no emolument was paid by the Group to any of the Directors and Supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme (Note II 11 Employee Benefits), there were no other retirement benefits for Directors or Supervisors, or consideration provided to third parties for making available Directors' or Supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended 31 December 2018 and 31 December 2017.

The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors at arm's length in the ordinary course of business. For the years ended 31 December 2018 and 31 December 2017 and as at 31 December 2018 and 31 December 2017, the respective balances of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors were not significant. The Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Credit impairment losses

	Year ended 31 December 2018
Loans and advances to customers	**130,111**
Financial investments	
Debt instrument investments at amortized cost	**1,384**
Other debt instruments at fair value through other comprehensive income	**2,575**
Provision for guarantees and commitments	**1,533**
Placements with and loans to banks and other financial institutions	**(41)**
Financial assets held under resale agreements	**(393)**
Others	**1,478**
Total	**136,647**

9 Impairment losses on assets

	Year ended 31 December 2017
Loans and advances to customers	92,864
Held-to-maturity investments	2,149
Available-for-sale financial assets	651
Property and equipment	101
Placements with and loans to banks and other financial institutions	(2,070)
Debt instruments classified as receivables	(290)
Other	4,761
Total	98,166

10 Income tax expense

	Year ended 31 December	
	2018	2017
Current income tax		
– PRC Enterprise Income Tax	**63,111**	52,342
– Hong Kong Profits Tax	**804**	648
– Other jurisdictions	**211**	302
Subtotal	**64,126**	53,292
Deferred tax (Note IV 23)	**(15,083)**	(6,947)
Total	**49,043**	46,345

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for both years, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in the PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense (Continued)

The tax charges for the years ended 31 December 2018 and 31 December 2017 can be reconciled to the profit per the consolidated income statement as follows:

		Year ended 31 December 2018	2017
Profit before tax		**251,674**	239,478
Tax calculated at applicable PRC statutory tax rate of 25%		**62,919**	59,870
Tax effect of income not taxable for tax purpose	(1)	**(26,202)**	(20,284)
Tax effect of costs, expenses and losses not deductible for tax purpose		**12,345**	6,839
Effect of different tax rates in other jurisdictions		**(19)**	(80)
Income tax expense		**49,043**	46,345

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

11 Dividends

		Year ended 31 December 2018	2017
Dividends on ordinary shares declared and paid			
Cash dividend related to 2017	(1)	**57,911**	–
Cash dividend related to 2016	(2)	**–**	55,215
		57,911	55,215
Dividends on preference shares declared and paid	(4)	**4,600**	4,600

(1) *Distribution of final dividend for 2017*

A cash dividend of RMB0.1783 per ordinary share related to 2017, amounting to RMB57,911 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2017 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 11 May 2018.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2018.

(2) *Distribution of final dividend for 2016*

A cash dividend of RMB0.17 per ordinary share related to 2016, amounting to RMB55,215 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2016 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 28 June 2017.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2017.

(3) *A final dividend of RMB0.1739 per ordinary share in respect of the year ended 31 December 2018 totaling RMB60,862 million has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Dividends (Continued)

(4) Distribution of dividend on preference shares for 2018

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 11 January 2018 and distributed on 12 March 2018.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 28 August 2018 and distributed on 5 November 2018.

Distribution of dividend on preference shares for 2017

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 13 January 2017 and distributed on 13 March 2017.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 9 October 2017 and distributed on 6 November 2017.

12 Earnings per share

	Year ended 31 December	
	2018	2017
Earnings:		
Profit for the year attributable to equity holders of the Bank	**202,783**	192,962
Less: profit for the year attributable to preference shareholders of the Bank	**(4,600)**	(4,600)
Profit for the year attributable to ordinary equity holders of the Bank	**198,183**	188,362
Number of shares:		
Weighted average number of ordinary shares in issue (million)	**337,423**	324,794
Basic and diluted earnings per share (RMB yuan)	**0.59**	0.58

For the purpose of calculating basic earnings per share, cash dividends of RMB4,600 million of non-cumulative preference shares declared in respect of the year of 2018 was deducted from the profit for the year attributable to equity holders of the Bank (2017: RMB4,600 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2018 and 31 December 2017, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Cash and balances with central banks

		As at 31 December	
		2018	2017
Cash		**98,089**	108,497
Mandatory reserve deposits with central banks	(1)	**2,312,116**	2,581,677
Surplus reserve deposits with central banks	(2)	**223,555**	43,408
Other deposits with central banks	(3)	**170,187**	163,037
Subtotal		**2,803,947**	2,896,619
Accrued interest		**1,160**	N/A
Total		**2,805,107**	2,896,619

(1) *The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. According to the requirements of "Notice on Reducing Deposit Reserve Ratio for Certain Financial Institutions to Replace Medium-term Lending Facilities issued by the People's Bank of China"(Yinfa [2018] No.94), RMB deposit reserve ratio for certain financial institutions is reduced by 1% from 25 April 2018; According to the requirements of "Notice on Reducing Deposit Reserve Ratio for Certain Financial Institutions issued by the People's Bank of China"(Yinfa [2018] No.165), RMB deposit reserve ratio for certain financial institutions is reduced by 0.5% from 5 July 2018; According to the requirements of "Notice on Reducing Deposit Reserve Ratio for Certain Financial Institutions issued by the People's Bank of China"(Yinfa [2018] No.231), RMB deposit reserve ratio for certain financial institutions is reduced by 1% from 15 October 2018.*

For Domestic Institutions of the Bank which meet the requirements of "Notice on Performance Appraisal Results of the Sannong Banking Operations of Agricultural Bank of China Limited for 2018 issued by the People's Bank of China" (Yinbanfa [2018] No. 61) effective from 26 March 2018, RMB mandatory reserve deposits with the PBOC are based on 12% of qualified RMB deposits (31 December 2017: 14.5%). For the Domestic Institutions of the Bank, RMB mandatory reserve deposits are based on 14% of qualified RMB deposits (31 December 2017: 16.5%). For the overseas participating banks with eligible RMB deposits, RMB mandatory reserve deposits are based on 14% of qualified RMB deposits (31 December 2017: 16.5 %). Foreign currency mandatory reserve deposits are based on 5% (31 December 2017: 5%) of qualified foreign currency deposits from customers. Mandatory reserve deposits placed by the Bank's Overseas Operations are determined based on respective overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

(2) *Surplus reserve deposits primarily represent deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.*

(3) *Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group's daily operations. Fiscal deposits are non-interest bearing from government, and the interest rate for foreign exchange risk reserve is currently set at zero. The foreign exchange risk reserve is maintained with the PBOC in accordance with the "Notice on Reinforcing the Macro Prudential Management of Foreign Exchange Transactions" (Yinfa [2015] No.273) issued by the PBOC on 31 August 2015. From 6 August 2018, the foreign exchange risk reserve rate was adjusted to 20% according to the "Notice on Adjustment of Foreign Exchange Risk Reserves Policy" (Yinfa [2018] No. 190) issued by PBOC on 3 August 2018.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Deposits with banks and other financial institutions

	As at 31 December	
	2018	2017
Deposits with:		
Domestic banks	**54,075**	92,355
Other domestic financial institutions	**12,296**	6,961
Overseas banks	**43,711**	31,018
Gross carrying amount	**110,082**	130,334
Accrued interest	**196**	N/A
Allowance for impairment losses	**(550)**	(89)
Deposits with banks and other financial institutions, net	**109,728**	130,245

As at 31 December 2018, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB13,080 million (31 December 2017: RMB10,598 million). These deposits were mainly security deposits pledged with clearing house and exchanges.

15 Placements with and loans to banks and other financial institutions

	As at 31 December	
	2018	2017
Placements with and loans to:		
Domestic banks	**193,744**	243,304
Other domestic financial institutions	**256,887**	189,488
Overseas banks and other financial institutions	**99,172**	73,415
Gross carrying amount	**549,803**	506,207
Accrued interest	**3,594**	N/A
Allowance for impairment losses	**(1,384)**	(938)
Placements with and loans to banks and other financial institutions, net	**552,013**	505,269

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial assets and liabilities

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized 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 instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. As at 31 December 2018 and 31 December 2017, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group. The Group did not elect to offset these financial assets and financial liabilities on a net basis. The Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

	31 December 2018		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	**2,850,770**	**34,202**	**(30,657)**
Currency options	**75,226**	**886**	**(738)**
Subtotal		**35,088**	**(31,395)**
Interest rate derivatives			
Interest rate swaps	**418,445**	**1,654**	**(839)**
Precious metal contracts and others	**76,631**	**202**	**(2,320)**
Total derivative financial assets and liabilities		**36,944**	**(34,554)**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial assets and liabilities (Continued)

	31 December 2017		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	1,997,265	24,349	(29,838)
Currency options	62,409	945	(275)
Subtotal		25,294	(30,113)
Interest rate derivatives			
Interest rate swaps	279,373	1,132	(406)
Precious metal contracts and others	126,596	1,858	(353)
Total derivative financial assets and liabilities		28,284	(30,872)

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 31 December 2018 and 31 December 2017, the credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings – Based approach.

	As at 31 December	
	2018	2017
Credit risk weighted amount for counterparty	**17,336**	22,868

17 Financial assets held under resale agreements

	As at 31 December	
	2018	2017
Analyzed by collateral type:		
Debt securities	**343,571**	481,056
Bills	**27,475**	59,330
Total	**371,046**	540,386
Accrued interest	**1,152**	N/A
Allowance for impairment losses	**(1,197)**	–
Financial assets held under resale agreements, net	**371,001**	540,386

The collateral received in connection with financial assets under resale agreement is disclosed in Note IV 43 Contingent Liabilities and Commitments – Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Loans and advances to customers

18.1 Analyzed by measurement basis

		As at 31 December 2018	2017
Measured at amortized cost	(1)	**11,027,381**	10,316,311
Measured at fair value through other comprehensive income	(2)	**433,912**	N/A
Measured at fair value through profit or loss	(3)	**249**	N/A
Total		**11,461,542**	10,316,311

(1) Measured at amortized cost:

	As at 31 December 2018	2017
Corporate loans and advances		
Loans and advances	**6,802,200**	*6,527,217*
Discounted bills	**–**	*187,502*
Subtotal	**6,802,200**	*6,714,719*
Personal loans and advances	**4,677,264**	*4,005,892*
Total	**11,479,464**	*10,720,611*
Accrued interest	**27,060**	*N/A*
Allowance for impairment losses	**(479,143)**	*(404,300)*
Carrying amount of loans and advances to customers measured at amortized cost	**11,027,381**	*10,316,311*

(2) Measured at fair value through other comprehensive income:

		As at 31 December 2018	2017
Corporate loans and advances	*(i)*		
Loans and advances		**89,951**	*N/A*
Discounted bills		**343,961**	*N/A*
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income		**433,912**	*N/A*

(3) Measured at fair value through profit or loss

	As at 31 December 2018	2017
Corporate loans and advances		
Loans and advances	**249**	*N/A*

(i) As at 1 January 2018, due to the adoption of IFRS 9, discounted bills and forfeiting included in loans and advances to customers were adjusted to be measured at fair value through other comprehensive income in head office and domestic branches of the Bank.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Loans and advances to customers (Continued)

18.2 Analyzed by assessment method of ECL

	Year ended 31 December 2018			
	Stage I 12m ECL	Stage II Lifetime ECL	Stage III (i) Lifetime ECL	Total
Gross loans and advances measured at amortized cost (accrued interest not included)	**10,929,528**	**359,934**	**190,002**	**11,479,464**
Allowance for impairment losses	**(261,704)**	**(68,455)**	**(148,984)**	**(479,143)**
Loans and advances to customers, net	**10,667,824**	**291,479**	**41,018**	**11,000,321**
Loans and advances measured at fair value through other comprehensive income	**433,488**	**424**	**–**	**433,912**
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	**(7,460)**	**(9)**	**–**	**(7,469)**

	Year ended 31 December 2017					
		Identified impaired loans and advances (iii)				
	Loans and advances for which the allowance is collectively assessed (ii)	For which the allowance is collectively assessed	For which the allowance is individually assessed	Subtotal	Total	Identified impaired gross loans and advances as a % of total gross loans and advances
31 December 2017						
Gross loans and advances	10,526,579	34,227	159,805	194,032	10,720,611	1.81
Allowance for impairment losses	(255,266)	(26,723)	(122,311)	(149,034)	(404,300)	
Loans and advances to customers, net	10,271,313	7,504	37,494	44,998	10,316,311	

The ECL for corporate loans and advances in stage I and stage II, as well as personal loans and advances, were measured in accordance with the risk parameters modelling method. The ECL for corporate loans and advances in Stage III are calculated using the cash flow discount model. For details, see Note IV 45.1 Credit Risk.

(i) *At 31 December 2018, the Group's exposure of credit-impaired Stage III loans and advances covered by collateral and pledge of the Group was RMB30,599 million (31 December 2017: the exposure of impaired loans and advances covered by collateral and pledge of the Group was RMB24,802 million).*

(ii) *At 31 December 2017, loans and advances for which allowance was collectively assessed consist of loans and advances which had not been specifically identified as impaired.*

(iii) *At 31 December 2017, identified impaired loans and advances included loans for which objective evidence of impairment exists and which have been identified as bearing impairment losses, which are measured either individually (corporate loans and advances) or collectively (personal loans and advances).*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Loans and advances to customers (Continued)

18.3 Analyzed by movements in loss allowance

The movements of loss allowance is mainly affected by:

– Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired;

– Allowance for new financial instruments recognized;

– Remeasurement includes the impact of changes in model assumptions, updates of model parameters, changes in probability of default and loss given default; changes in ECL due to transfer of financial assets between stages; changes in ECL due to unwinding of discount over time; changes in foreign exchange translations for assets denominated in foreign currencies and other movements; and

– The reversal of allowances caused by repayment, write-offs and transfer of financial assets.

The following table shows the impact of above factors on the allowance for impairment losses:

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
Corporate loans and advances	12m ECL (ii)	Lifetime ECL (iii)		Total
1 January 2018 (i)	160,902	53,285	126,922	341,109
Transfer:				
Stage I to stage II	(9,105)	9,105	–	–
Stage II to stage III	–	(22,224)	22,224	–
Stage II to stage I	3,948	(3,948)	–	–
Stage III to stage II	–	2,217	(2,217)	–
Originated or purchased financial assets	48,217	–	–	48,217
Remeasurement	21,108	29,648	62,188	112,944
Repayment and transfer out	(33,924)	(4,110)	(26,946)	(64,980)
Write-offs	–	–	(53,560)	(53,560)
31 December 2018	191,146	63,973	128,611	383,730

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Loans and advances to customers (Continued)

18.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses (Continued):

Personal loans and advances	Year ended 31 December 2018 Stage I 12m ECL(iv)	Stage II Lifetime ECL(v)	Stage III Lifetime ECL(v)	Total
1 January 2018 (i)	60,853	3,924	25,389	90,166
Transfer:				
Stage I to stage II	(1,124)	1,124	–	–
Stage II to stage III	–	(1,248)	1,248	–
Stage II to stage I	1,139	(1,139)	–	–
Stage III to stage II	–	411	(411)	–
Originated or purchased financial assets	35,789	–	–	35,789
Remeasurement	(2,634)	3,750	10,441	11,557
Repayment and transfer out	(16,005)	(2,331)	(3,291)	(21,627)
Write-offs	–	–	(13,003)	(13,003)
31 December 2018	78,018	4,491	20,373	102,882

(i) The reconciliation of impairment allowance on loans and advances to customers from IAS 39 to IFRS 9 on 1 January 2018 is disclosed in Note II 2.3.

(ii) In 2018, the provision rate of the Group's corporate loans and advances in Stage I remains stable. The changes of the Group's loss allowance of corporate loans and advances in Stage I were mainly driven by a net increase of nearly 12% in the corresponding gross amount.

(iii) In 2018, transfer between stages led to net increase in the gross amount of corporate loans and advances in Stage II, this is mainly driven by the net transfer in from Stage I and the transferred amount is approximately 3% of the beginning balance of Stage I corporate loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was netted off by the repayment of Stage II corporate loans and advances. Repayment amount of Stage II corporate loans and advances is about 30% of the beginning Stage II balances. There was no significant change in the gross amount of Stage II corporate loans and advances as of 1 January 2018 and 31 December 2018. The changes in loss allowance is mainly driven by the changes in provision rates;

In 2018, the provision rate of the Group's corporate loans and advances in Stage III remains stable. The changes in loss allowance is mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III corporate loans and advances. There was no significant change in the gross amount of Stage III corporate loans and advances as of 1 January 2018 and 31 December 2018.

(iv) In 2018, the provision rate of the Group's personal loans and advances remains stable. The changes of the Group's loss allowance of personal loans and advances in Stage I were mainly driven by a net increase of approximately 17% in the corresponding gross amount.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Loans and advances to customers (Continued)

18.3 Analyzed by movements in loss allowance (Continued)

The following table shows the impact of above factors on the allowance for impairment losses (Continued):

(v) *In 2018, transfer between stages led to net increase in the gross amount of personal loans and advances in Stage II, this is mainly driven by the net transfer in from Stage I and the transferred amount is approximately 1% of the beginning balance of Stage I personal loans and advances. The impact on the loss allowances for the gross amount increase due to transfer between stages was netted off by the repayment of Stage II personal loans and advances. Repayment amount of Stage II personal loans and advances is about 50% of the Stage II balances as of 1 January 2018. There was no significant change in the gross amount of Stage II personal loans and advances as of 1 January 2018 and 31 December 2018. The changes in loss allowance is mainly driven by the changes in provision rates;*

In 2018, the provision rate of the Group's personal loans and advances in Stage III remains stable. The changes in loss allowance is mainly driven by the net transfer in from Stage II and subsequent remeasurement. This impact was netted off by the repayment, transfer out and write-offs of Stage III personal loans and advances. In 2018, the net decrease of the gross amount of the Group's personal loans and advances in Stage III is approximately 12%.

	Year ended 31 December 2017		
	Individually assessed allowance	Collectively assessed allowance	Total
1 January 2017	133,605	266,670	400,275
Impairment allowance on loans charged	87,588	107,125	194,713
Reversal of impairment allowance	(20,158)	(81,691)	(101,849)
Net additions	67,430	25,434	92,864
Write-offs and transfer out	(82,283)	(12,010)	(94,293)
Recovery of loans and advances written off in previous years	4,758	2,343	7,101
Unwinding of discount on allowance	(1,077)	(353)	(1,430)
Exchange difference	(122)	(95)	(217)
31 December 2017	122,311	281,989	404,300

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments

		As at 31 December 2018	2017
Financial assets at fair value through profit or loss	19.1	**643,245**	N/A
Debt instrument investments at amortized cost	19.2	**4,503,698**	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income	19.3	**1,738,132**	N/A
Financial assets held for trading	19.4	**N/A**	194,640
Financial assets designated at fair value through profit or loss	19.5	**N/A**	383,325
Available-for-sale financial assets	19.6	**N/A**	1,426,420
Held-to-maturity investments	19.7	**N/A**	3,489,135
Debt instruments classified as receivables	19.8	**N/A**	659,223
Total		**6,885,075**	6,152,743

19.1 Financial assets at fair value through profit or loss

		31 December 2018
Mandatorily measured at fair value through profit or loss:		
– Held for trading	(1)	**246,788**
– Other financial assets at fair value through profit or loss	(2)	**129,725**
Financial assets designated at fair value through profit or loss	(3)	**266,732**
Total		**643,245**
Analyzed as:		
Listed in Hong Kong		**4,101**
Listed outside Hong Kong	(i)	**519,076**
Unlisted		**120,068**
Total		**643,245**

(i) 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)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.1 Financial assets at fair value through profit or loss (Continued)

(1) Held for trading

	31 December 2018
Debt securities issued by:	
Governments	**11,302**
Public sector and quasi-governments	**87,444**
Financial institutions	**62,506**
Corporates	**52,756**
Subtotal	**214,008**
Precious metal contracts	**28,139**
Equity and fund	**4,641**
Total	**246,788**

(2) Other financial assets at fair value through profit or loss (ii)

	31 December 2018
Debt securities issued by:	
Public sector and quasi-governments	**20,554**
Financial institutions	**51,947**
Corporates	**4,385**
Subtotal	**76,886**
Equity and fund	**37,151**
Others	**15,688**
Total	**129,725**

(ii) Other financial assets at fair value through profit or loss refer to financial assets that do not qualify for measurement at AC or FVOCI and are not held for trading, including bond investments, equity interests, funds, trust plans and asset management products, among other things, of the Group and the Bank.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.1 Financial assets at fair value through profit or loss (Continued)

(3) Financial assets designated at fair value through profit or loss (iii)

	31 December 2018
Debt securities issued by:	
Governments	21,257
Public sector and quasi-governments	33,399
Financial institutions	49,711
Corporates	38,537
Subtotal	142,904
Deposits with banks and other financial institutions	9,174
Placements with and loans to banks and other financial institutions	110,431
Others	4,223
Total	266,732

(iii) Financial assets designated at fair value through profit or loss mainly include the financial asset invested by the wealth management products ("WMPs") with principal guaranteed by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.2 Debt instrument investments at amortized cost

		31 December 2018
Debt securities issued by:		
Governments		**2,299,357**
Public sector and quasi-governments		**1,255,738**
Financial institutions		**300,010**
Corporates		**169,480**
Subtotal		**4,024,585**
Receivable from the MOF	(i)	**290,891**
Special government bonds	(ii)	**93,358**
Others	(iii)	**22,443**
Total		**4,431,277**
Accrued interest		**81,608**
Allowance for impairment losses		**(9,187)**
Debt instrument investments at amortized cost, net		**4,503,698**
Analyzed as:		
Listed in Hong Kong		**12,698**
Listed outside Hong Kong	(iv)	**4,116,972**
Unlisted		**374,028**
Total		**4,503,698**

(i) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at the rate of 3.3% per annum.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instruments classified as receivables are primarily related to investment in unconsolidated structured entities held by the Group (Note IV 42(2)).

(iv) 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)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.2 *Debt instrument investments at amortized cost* (Continued)

(1) *Analyzed by assessment method of ECL*

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
Gross debt instrument investments at amortized cost	**4,509,520**	**1,043**	**2,322**	**4,512,885**
Allowance for impairment losses	**(6,691)**	**(236)**	**(2,260)**	**(9,187)**
Debt instrument investments at amortized cost, net	**4,502,829**	**807**	**62**	**4,503,698**

Debt instrument investments at amortized cost in stage II and stage III mainly included corporate bond and other debt instruments investment.

(2) *Analyzed by movements in loss allowance (i)*

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	
	12m ECL	Lifetime ECL		Total
1 January 2018	**5,883**	**20**	**2,261**	**8,164**
Transfer:				
stage I transfer to stage II	**(9)**	**9**	**–**	**–**
Originated or purchased financial assets	**2,242**	**–**	**–**	**2,242**
Remeasurement	**(369)**	**227**	**233**	**91**
Maturities or transfer out	**(1,056)**	**(20)**	**(234)**	**(1,310)**
31 December 2018	**6,691**	**236**	**2,260**	**9,187**

(i) In 31 December 2018, the increases of the Group's loss allowance of debt instrument investments at amortized cost were mainly due to the increase of debt instrument investments and the derecognition of remained debt instrument investments in the year.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.3 Other debt instrument and other equity investments at fair value through other comprehensive income

		Year ended 31 December 2018			
		Amortized cost of debt instruments/ cost of equity instruments	Fair value	Cumulative amount of change in fair value that is accrued to other comprehensive income	Cumulative amount of impairment
Debt instruments	(1)	**1,725,961**	**1,735,892**	**9,931**	**(6,327)**
Equity instruments	(2)	**1,598**	**2,240**	**642**	**N/A**
Total		**1,727,559**	**1,738,132**	**10,573**	**(6,327)**

(1) Debt instruments

(a) Analyzed by measurement basis

		31 December 2018
Debt securities issued by:		
Governments		**707,987**
Public sector and quasi-governments		**263,005**
Financial institutions		**544,934**
Corporates		**186,738**
Subtotal		**1,702,664**
Others	(i)	**14,287**
Subtotal of debt instruments		**1,716,951**
Accrued interest		**18,941**
Total		**1,735,892**
Analyzed as:		
Listed in Hong Kong		**98,119**
Listed outside Hong Kong		**1,593,843**
Unlisted		**43,930**
Total		**1,735,892**

(i) Others primarily include trust investment plans and debt investment plans invested by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.3 *Other debt instrument and other equity investments at fair value through other comprehensive income (Continued)*

(1) *Debt instruments (Continued)*

(b) *Analyzed by assessment method of ECL*

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12m ECL	Lifetime ECL		
Other debt instruments at fair value through other comprehensive income	**1,730,932**	**4,783**	**177**	**1,735,892**
Allowance for impairment losses	**(5,720)**	**(552)**	**(55)**	**(6,327)**

Other debt instruments at fair value through other comprehensive income in stage II and stage III mainly included corporate bond investments.

(c) *Analyzed by movements in loss allowance (ii)*

	Year ended 31 December 2018			
	Stage I	Stage II	Stage III	Total
	12m ECL	Lifetime ECL		
1 January 2018	**5,290**	**125**	**186**	**5,601**
Transfer:				
stage I transfer to stage II	**(35)**	**35**	**–**	**–**
stage II transfer to stage I	**51**	**(51)**	**–**	**–**
Originated or purchased financial assets	**1,958**	**–**	**–**	**1,958**
Remeasurement	**(143)**	**452**	**39**	**348**
Maturities or transfer out	**(1,401)**	**(9)**	**(170)**	**(1,580)**
31 December 2018	**5,720**	**552**	**55**	**6,327**

(ii) *In 31 December 2018, the increases of the Group's loss allowance of other debt instrument investments at fair value through other comprehensive income were mainly due to the increase of debt instrument investments and the derecognition of remained debt instrument investments in the year.*

(2) *Equity instruments*

	31 December 2018
Banks and other financial institutions	**2,036**
Other enterprises	**204**
Total	**2,240**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.4 Financial assets held for trading

		31 December 2017
Debt securities issued by:		
Governments		12,112
Public sector and quasi-governments		79,368
Financial institutions		50,845
Corporates		21,624
Subtotal		163,949
Precious metal contracts		30,691
Total		194,640
Analyzed as:		
Listed in Hong Kong		–
Listed outside Hong Kong	(i)	163,949
Unlisted		30,691
Total		194,640

(i) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

19.5 Financial assets designated at fair value through profit or loss

		31 December 2017
Debt securities issued by:		
Governments		19,352
Public sector and quasi-governments		61,344
Financial institutions		52,805
Corporates		39,138
Subtotal		172,639
Deposits with banks and other financial institutions		93,741
Placements with and loans to banks and other financial institutions		92,388
Others	(i)	24,557
Total		383,325
Analyzed as:		
Listed in Hong Kong		3,153
Listed outside Hong Kong	(ii)	163,054
Unlisted		217,118
Total		383,325

(i) Others mainly include credit assets, equity instruments and fund investments.

(ii) 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)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.6 Available-for-sale financial assets

		31 December 2017
Debt securities issued by:		
Governments		510,794
Public sector and quasi-governments		312,321
Financial institutions		398,098
Corporates		177,671
Subtotal		1,398,884
Fund investments		3,715
Equity instruments		7,523
Others	(i)	16,298
Total		1,426,420
Analyzed as:		
Debt securities		
Listed in Hong Kong		85,012
Listed outside Hong Kong	(ii)	1,282,278
Unlisted		31,593
Equity instruments and fund investments and others		
Listed in Hong Kong		114
Listed outside Hong Kong		8,211
Unlisted	(iii)	19,212
Total		1,426,420

(i) *The Group's other available-for-sale financial assets primarily include assets management products invested by the Group.*

(ii) *Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".*

(iii) *As at 31 December 2017, unlisted equity instruments of the Group amounted to RMB297 million were measured at cost because their fair value cannot be reliably measured.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.7 Held to maturity investments

		31 December 2017
Debt securities issued by:		
Governments		1,774,655
Public sector and quasi-governments		1,269,267
Financial institutions		302,240
Corporates		149,146
Subtotal		3,495,308
Allowance for impairment losses		(6,173)
Held-to-maturity investments, net		3,489,135
Analyzed as:		
Listed in Hong Kong		6,835
Listed outside Hong Kong	(i)	3,456,090
Unlisted		26,210
Total		3,489,135

(i) 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)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

19.8 Debt instruments classified as receivables

		31 December 2017
Receivable from the MOF	(i)	271,678
Special government bond	(ii)	93,300
Government bonds		169,336
Public sector and quasi-government bonds		–
Financial institution bonds		81,075
Corporate bonds		15,887
Certificate treasury bonds and savings treasury bonds		3,612
Others	(iii)	28,688
Subtotal		663,576
Allowance for impairment losses		(4,353)
Debt instruments classified as receivables, net		659,223
Analyzed as:		
Listed in Hong Kong		1
Listed outside Hong Kong		304,192
Unlisted		355,030
Total		659,223

(i) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at the rate of 3.3% per annum.

(ii) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(iii) Other debt instruments classified as receivables are primarily related to investments in unconsolidated structured entities held by the Group (Note IV 42(2)).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Investment in subsidiaries and structured entities

(1) Investment in subsidiaries

The following are the principal subsidiaries of the Group as at 31 December 2018:

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,449	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.	(i)	29 September 2010	Shanghai, PRC	RMB9,500,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,000	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.	(ii)	18 March 2008	Shanghai, PRC	RMB1,750,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(iii)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB40,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company		24 May 2012	Fujian, PRC	RMB100,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(iv)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited		23 December 2014	Moscow, Russia	RUB1,400,000,000	100.00	100.00	Banking
ABC Financial Asset Investment Co., Ltd.		1 August 2017	Beijing, PRC	RMB10,000,000,000	100.00	100.00	Debt-to-equity swap and related services

During the year ended 31 December 2018 and 31 December 2017, there were no changes in the proportion of equity interest or voting rights the Group held in its subsidiaries.

(i) *During the year ended 31 December 2018, the Group contributed additional capital totally RMB6,500 million to ABC Financial Leasing Co., Ltd., comprising registered capital of RMB6,500 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Financial Leasing Co., Ltd. remained at 100.00%.*

(ii) *During the year ended 31 December 2018, the Group and other investors contributed additional capital totally RMB1,550 million to ABC-CA Fund Management Co., Ltd., comprising registered capital of RMB1,550 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC-CA Fund Management Co., Ltd. remained at 51.67%.*

(iii) *Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over and has included this entity in its consolidation scope.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Investment in subsidiaries and structured entities (Continued)

(1) Investment in subsidiaries (Continued)

(iv) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance"). The Group recognized goodwill of RMB1,381 million as a result of this acquisition. During the year ended 31 December 2016, the Group and other investors contributed additional capital totalling RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Life Insurance remained at 51%.

The Bank tests the impairment of goodwill annually. When performing the impairment test, the Bank compares the carrying amount of the assets (including goodwill and the value of the mergers and acquisitions after deduction of amortization) with the recoverable amount. The excess of carrying amount over recoverable amount is recognized in profit or loss of the current period.

The recoverable amount of the assets is based on adjusted net assets, value of in-force business, value of one year of new business, new business multiplier, and other data approved by the management of ABC Life Insurance. The actuarial valuation method is applied and the risk discount rate, return on investment, valuation discount rate, and other assumptions adopted to forecast cash flows respectively reflect the specific risks associated with them.

As at 31 December 2018 and 31 December 2017, there was no objective evidence noted for any goodwill impairment, and no impairment loss was recognized.

(2) Structured entities

The Group also consolidated structured entities as disclosed in Note IV 42 Structured Entities.

21 Investment in associates and joint ventures

(1) Investment in associates

Name of entity		Date of incorporatio/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Sino-Congolese Bank of Africa	(i)	2015	Brazzaville, Congo	XAF 53,342,800,000	50.00	50.00	Bank
Beijing Guofa Aero Engine Industry Investment Fund Center LP	(ii)	2018	Beijing, PRC	RMB3,525,200,000	28.08	20.00	Non Securities investment activities and related advisory services

(i) On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour I'Afrique, hereinafter referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA.Bank, and has the right to participate in the financial and operating policy decisions of BSCA.Bank, but does not constitute control or joint control over those policy decisions.

(ii) On 28 September 2018, the Bank's wholly-owned subsidiary, ABC Financial Assets Investment Co., Ltd. and other investors invested in the Beijing Guofa Aero Engine Industry Investment Fund Center LP. The Group has the right to participate in the financial and operating policy decisions of Beijing Guofa Aero Engine Industry Investment Fund Center LP., but does not constitute control or joint control over those policy decisions.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment in associates and joint ventures (Continued)

(2) *Investment in joint ventures*

Name of entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
Jiangsu Jiequan ABC State-owned Enterprise Mixed Ownership Reform Fund LP	2018	Jiangsu, PRC	RMB1,000,000,000	69.00	28.57	Equity investment, Debt-to-Equity and related supporting services
ABC Gaotou (Hubei) Debt-to-Equity Investment Fund LP	2018	Hubei, PRC	RMB500,000,000	74.00	33.33	Non Securities equity investment activities and related advisory services
Suida(Jiaxing) Investment LP	2018	Zhejiang, PRC	RMB1,200,000,000	41.71	40.00	Industrial Investment
ABC New Silk Road(Jiaxing) Investment Fund LP	2018	Zhejiang, PRC	RMB1,500,000,000	66.67	50.00	Industrial investment and equity investment
Shenzhen Zhaoping Suida Investment Center LP	2018	Guangdong, PRC	RMB400,000,000	50.00	40.00	Industrial investment and investment advisory
Zhejiang New Power Fund LP	2018	Zhejiang, PRC	RMB2,000,000,000	50.00	50.00	Industrial investment and equity investment
Chengdu Chuanneng Lithium Energy Equity Investment Fund LP	2018	Sichuan, PRC	RMB2,520,000,000	30.16	28.57	Non-publicly traded equity investments and related advisory services

In 2018, the wholly-owned subsidiary of the Bank, ABC Financial Assets Investment Co., Ltd. and other investors established the aforesaid limited partnerships. According to the partnership agreements, matters considered at the Meeting of Partners or investment decision-making committee shall be approved by the unanimous consent of all the partners or all the committee members. The Bank constitutes joint control over the financial and operating policy decisions of these limited partnerships with the other investors.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Property and equipment

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2018	**173,802**	**64,846**	**10,009**	**16,170**	**264,827**
Additions	**3,532**	**5,310**	**1,613**	**4,904**	**15,359**
Transfers	**12,210**	**236**	**121**	**(12,567)**	**–**
Disposals	**(3,101)**	**(4,588)**	**(646)**	**(521)**	**(8,856)**
31 December 2018	**186,443**	**65,804**	**11,097**	**7,986**	**271,330**
Accumulated depreciation					
1 January 2018	**(61,235)**	**(44,900)**	**(3,022)**	**–**	**(109,157)**
Charge for the year	**(7,048)**	**(6,442)**	**(614)**	**–**	**(14,104)**
Disposals	**699**	**3,607**	**378**	**–**	**4,684**
31 December 2018	**(67,584)**	**(47,735)**	**(3,258)**	**–**	**(118,577)**
Allowance for impairment losses					
1 January 2018	**(294)**	**(8)**	**(1)**	**(109)**	**(412)**
Impairment loss	**(3)**	**(13)**	**–**	**–**	**(16)**
Disposals	**26**	**–**	**–**	**101**	**127**
31 December 2018	**(271)**	**(21)**	**(1)**	**(8)**	**(301)**
Carrying value					
31 December 2018	**118,588**	**18,048**	**7,838**	**7,978**	**152,452**
1 January 2018	**112,273**	**19,938**	**6,986**	**16,061**	**155,258**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Property and equipment (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2017	162,858	64,203	8,309	22,031	257,401
Additions	1,986	4,176	2,868	4,285	13,315
Transfers	9,794	351	1	(10,146)	–
Disposals	(836)	(3,884)	(1,169)	–	(5,889)
31 December 2017	173,802	64,846	10,009	16,170	264,827
Accumulated depreciation					
1 January 2017	(54,032)	(41,258)	(3,128)	–	(98,418)
Charge for the year	(7,516)	(7,483)	(454)	–	(15,453)
Disposals	313	3,841	560	–	4,714
31 December 2017	(61,235)	(44,900)	(3,022)	–	(109,157)
Allowance for impairment losses					
1 January 2017	(296)	(8)	(2)	(8)	(314)
Impairment loss	–	–	–	(101)	(101)
Disposals	2	–	1	–	3
31 December 2017	(294)	(8)	(1)	(109)	(412)
Carrying value					
31 December 2017	112,273	19,938	6,986	16,061	155,258
1 January 2017	108,530	22,937	5,179	22,023	158,669

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2018, the registration transfer process of these transferred properties and other certain properties have not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Deferred taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2018	2017
Deferred tax assets	**113,293**	97,751
Deferred tax liabilities	**(139)**	(87)
Net	**113,154**	97,664

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
31 December 2017	**78,656**	**7,376**	**940**	**2,677**	**7,763**	**252**	**97,664**
Change in accounting policy	**7,266**	**–**	**–**	**3,841**	**(1,363)**	**–**	**9,744**
1 January 2018	**85,922**	**7,376**	**940**	**6,518**	**6,400**	**252**	**107,408**
Credit/(charge) to the consolidated income statement	**17,513**	**1,489**	**(220)**	**(47)**	**(3,642)**	**(10)**	**15,083**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**(9,337)**	**–**	**(9,337)**
31 December 2018	**103,435**	**8,865**	**720**	**6,471**	**(6,579)**	**242**	**113,154**

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
1 January 2017	75,931	6,818	1,331	3,398	(4,413)	64	83,129
Credit/(charge) to the consolidated income statement	2,725	558	(391)	(721)	4,588	188	6,947
Credit to other comprehensive income	–	–	–	–	7,588	–	7,588
31 December 2017	78,656	7,376	940	2,677	7,763	252	97,664

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Deferred taxation (Continued)

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**413,742**	**103,435**	314,625	78,656
Fair value changes of financial instruments	**29,070**	**7,268**	63,486	15,872
Accrued but unpaid staff cost	**35,462**	**8,865**	29,505	7,376
Provision	**25,883**	**6,471**	10,709	2,677
Early retirement benefits	**2,883**	**720**	3,762	940
Others	**1,071**	**268**	1,095	274
Subtotal	**508,111**	**127,027**	423,182	105,795
Deferred tax liabilities				
Fair value changes of financial instruments	**(55,392)**	**(13,847)**	(32,437)	(8,109)
Others	**(104)**	**(26)**	(89)	(22)
Subtotal	**(55,496)**	**(13,873)**	(32,526)	(8,131)
Net	**452,615**	**113,154**	390,656	97,664

24 Other assets

		As at 31 December	
		2018	2017
Interest receivable	(1)	**2,993**	118,693
Accounts receivable and temporary payments	(2)	**54,309**	35,169
Land use rights	(3)	**20,804**	21,798
Investment properties		**2,894**	2,755
Intangible assets		**2,771**	2,737
Long-term deferred expenses		**2,196**	2,672
Value-added tax receivable		**1,079**	1,581
Premiums receivable and reinsurance assets		**608**	2,903
Foreclosed assets		**667**	2,666
Others		**7,341**	5,926
Total		**95,662**	196,900

(1) As at 31 December 2018, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and receivable but not yet been received at the balance sheet date in interest receivable under other assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Other assets (Continued)

(2) *Account receivables and temporary payments, which include receivables from settlement accounts and liquidation account, amount receivables from the MOF, other receivables, etc.*

For account receivables arising from revenue recognized in accordance with IFRS 15, the entity measures the loss allowance at amount equal to lifetime ECL using a simplelified approach. At 31 December 2018, the principals of these account receivables was RMB10,692 million, and the loss allowance at amount equal to lifetime ECL was RMB610 million.

For other account receivables, the entity measures ECL using relatively simple ECL models, by which The Group prepares a provision matrix incorporating current condition and future forecast to measure loss allowances. At 31 December 2018, the gross amount of these account receivables was RMB46,862 million, and the loss allowance was RMB2,635 million.

(3) *According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2018, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.*

25 Borrowings from central bank

As at 31 December 2018, borrowings from central bank mainly included Medium-term Lending Facilities from PBOC amounting to RMB551,500 million (31 December 2017: RMB464,500 million).

26 Deposits from banks and other financial institutions

	As at 31 December	
	2018	2017
Deposits from:		
Domestic banks	**47,202**	117,401
Other domestic financial institutions	**1,016,565**	815,908
Overseas banks	**8,906**	9,262
Other overseas financial institutions	**44,280**	32,159
Subtotal	**1,116,953**	974,730
Accrued interest	**7,369**	N/A
Total	**1,124,322**	974,730

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 Placements from banks and other financial institutions

	As at 31 December 2018	2017
Placements from:		
Domestic banks and other financial institutions	**137,955**	92,665
Overseas banks and other financial institutions	**185,870**	187,396
Subtotal	**323,825**	280,061
Accrued interest	**1,716**	N/A
Total	**325,541**	280,061

28 Financial liabilities at fair value through profit or loss

		As at 31 December 2018	2017
Financial liabilities held for trading			
Precious metal contracts	(1)	**17,188**	21,118
Financial liabilities designated at fair value through profit or loss			
Principal guaranteed wealth management products	(2)	**265,715**	364,151
Overseas debt securities		**3,400**	6,503
Subtotal		**269,115**	370,654
Total		**286,303**	391,772

(1) *The financial liabilities held for trading are liabilities related to precious metal contracts.*

(2) *The Group designates WMPs with principal guaranteed by the Group as financial liabilities at fair value through profit or loss. The corresponding investments are designated as financial assets at fair value through profit or loss. As at 31 December 2018 and 31 December 2017, the difference between the fair value of these products issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material.*

For the current and prior year, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Financial assets sold under repurchase agreements

	As at 31 December 2018	2017
Analyzed by type of collateral:		
Debt securities	**156,741**	319,608
Bills	**–**	181
Subtotal	**156,741**	319,789
Accrued interest	**360**	N/A
Total	**157,101**	319,789

The collateral pledged under repurchase agreement is disclosed in Note IV 43 Contingent Liabilities and Commitments – Collateral.

30 Due to customers

		As at 31 December 2018	2017
Demand deposits			
Corporate customers		**4,677,155**	4,554,308
Individual customers		**5,318,511**	4,896,269
Time deposits			
Corporate customers		**1,941,564**	1,889,604
Individual customers		**4,479,483**	4,356,685
Pledged deposits	(1)	**288,530**	305,276
Others		**440,403**	192,137
Subtotal		**17,145,646**	16,194,279
Accrued interest		**200,644**	N/A
Total		**17,346,290**	16,194,279

(1) Analyzed by activity to which pledged deposits are related to:

	As at 31 December 2018	2017
Guarantee and letters of guarantee	**78,859**	*92,174*
Trade finance	**92,555**	*80,551*
Bank acceptance	**52,055**	*62,906*
Letters of credit	**12,463**	*24,856*
Others	**52,598**	*44,789*
Total	**288,530**	*305,276*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Debt securities issued

		As at 31 December 2018	2017
Bonds issued	(1)	**282,880**	246,833
Certificates of deposit issued	(2)	**240,897**	196,412
Commercial papers issued	(3)	**13,283**	22,915
Interbank certificates of deposit issued	(4)	**237,970**	8,857
Subtotal		**775,030**	475,017
Interest payable		**5,643**	N/A
Total		**780,673**	475,017

As at 31 December 2018 and 31 December 2017, there was no default related to any debt securities issued by the Group.

(1) The carrying value of the Group's bonds issued are as follows:

		As at 31 December 2018	2017
2.125% USD fixed rate Green Bonds maturing in October 2018	(i)	**–**	2,614
2.75% USD fixed rate Green Bonds maturing in October 2020	(ii)	**3,432**	3,267
Medium term notes issued	(iii)	**41,070**	45,951
4.0% subordinated fixed rate bonds maturing in May 2024	(iv)	**25,000**	25,000
5.3% subordinated fixed rate bonds maturing in June 2026	(v)	**50,000**	50,000
4.99% subordinated fixed rate bonds maturing in December 2027	(vi)	**50,000**	50,000
5.8% Tier-two capital fixed rate bonds maturing in August 2024	(vii)	**30,000**	30,000
4.45% Tier-two capital fixed rate bonds maturing in August 2027	(viii)	**40,000**	40,000
4.45% Tier-two capital fixed rate bonds maturing in April 2028	(ix)	**40,000**	–
5.55% 10 years fixed rate capital replenishment bond maturing in March 2028	(x)	**3,500**	–
Total nominal value		**283,002**	246,832
Interest payable		**4,664**	N/A
Less: Unamortized issuance cost and discounts		**(122)**	1
Carrying value		**287,544**	246,833

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) The USD green bonds issued in London in October 2015 have a tenor of 3 years, with a fixed coupon rate 2.125%, payable semi-annually.

(ii) The USD green bonds issued in London in October 2015 have a tenor of 5 years, with a fixed coupon rate 2.75%, payable semi-annually.

(iii) The medium term notes ("MTNs") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

	As at 31 December 2018		
	Maturity dates ranging from	***Coupon rates (%)***	***Outstanding balance***
Fixed rate RMB MTNs	***August 2019 to March 2021***	***3.8-4.8***	***3,320***
Fixed rate EUR MTNs	***January 2019***	***–***	***784***
Fixed rate HKD MTNs	***March 2019 to January 2021***	***2.18-2.52***	***1,489***
Floating rate HKD MTNs	***September 2020***	***3-month HKD HIBOR plus 0.70***	***350***
Fixed rate USD MTNs	***January 2019 to September 2021***	***1.88-3.88***	***15,620***
Floating rate USD MTNs	***March 2019 to November 2023***	***3-month USD LIBOR plus 0.40 to 0.80***	***19,571***
Total			***41,134***

	As at 31 December 2017		
	Maturity dates ranging from	*Coupon rates (%)*	*Outstanding balance*
Fixed rate USD MTNs	*May 2018 to June 2021*	*1.875-3.60*	*27,175*
Fixed rate RMB MTNs	*December 2018 to December 2019*	*2.375-3.80*	*2,761*
Floating rate USD MTNs	*May 2018 to September 2019*	*3-month USD LIBOR plus 0.75 to 0.98*	*13,068*
Fixed rate HKD MTNs	*August 2018 to August 2020*	*1.43-2.18*	*2,613*
Floating rate HKD MTNs	*September 2020*	*3-month HKD HIBOR plus 0.70*	*334*
Total			*45,951*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

(iv) The subordinated fixed rate bonds issued in May 2009 have a tenor of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank does not exercise this option, the coupon rate of the bonds will increase to 7.0% per annum from 20 May 2019 onwards.

(v) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 7 June 2021. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 5.3% per annum from 7 June 2021 onwards.

(vi) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 December 2022. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.

(vii) The Tier-two capital bonds issued in August 2014 have a tenor of 10 years, with a fixed coupon rate of 5.8% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 17 August 2019 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 5.8% per annum from 18 August 2019 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(viii) The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 September 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 September 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(ix) The Tier-two capital bonds issued in April 2018 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 26 March 2023 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank does not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 27 March 2023 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

(x) The fixed rate Capital replenishment debt issued by ABC Life Insurance in March 2018 have a tenor of 10 years, with a fixed coupon rate of 5.55%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 4 March 2023. If ABC Life Insurance do not exercise this option, the coupon rate of the bonds would increase to 6.55% per annum from 5 March 2023 onwards.

(2) As at 31 December 2018, the certificates of deposit were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the certificates of deposit range from two months to seven years, with interest rates ranging from 0% to 4.60%. As at 31 December 2017, the terms ranged from one month to seven years with interest rates ranging from 0% to 5.06%.

(3) As at 31 December 2018, the commercial papers were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the commercial papers range from two months to one year, with interest rates ranging from 0% to 3.22%. As at 31 December 2017, the terms ranged from two months to one year, with interest rates ranging from 0.01% to 2.36%.

(4) As at 31 December 2018, the interbank certificates of deposit were issued by the Bank's Head Office. The terms of the interbank certificates of deposit range from three months to one year, with interest rates ranging from 3.20% to 4.40%. As at 31 December 2017, the terms ranged from one month to six months with interest rates ranging from 4.30% to 4.60%.

32 Other liabilities

		As at 31 December	
		2018	2017
Interest payable	(1)	**238**	228,805
Clearing and settlement		**53,578**	47,126
Insurance liabilities		**68,351**	73,869
Staff costs payable	(2)	**45,285**	40,222
Provision	(3)	**25,883**	10,709
Income taxes payable		**49,248**	32,842
VAT and other taxes payable		**7,568**	7,322
Amount payable to the MOF	(4)	**1,567**	3,154
Dormant accounts		**4,249**	2,469
Others		**62,599**	44,913
Total		**318,566**	491,431

(1) As at 31 December 2018, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and payable but not yet been paid at the balance sheet date in interest payable under other liabilities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Other liabilities (Continued)

(2) Staff costs payable

		As at 31 December 2018	2017
Short-term employee benefits	(i)	**39,698**	35,894
Defined contribution benefits	(ii)	**2,704**	566
Early retirement benefits	(iii)	**2,883**	3,762
Total		**45,285**	40,222

(i) Short-term employee benefits

		2018 1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	**26,829**	**75,976**	**(73,246)**	**29,559**
Housing funds	(a)	**157**	**8,328**	**(8,299)**	**186**
Social insurance including:	(a)	**171**	**5,371**	**(5,287)**	**255**
– Medical insurance		**159**	**4,829**	**(4,753)**	**235**
– Maternity insurance		**7**	**381**	**(375)**	**13**
– Employment injury insurance		**5**	**161**	**(159)**	**7**
Labor union fees and staff education expenses		**5,344**	**3,365**	**(2,503)**	**6,206**
Others		**3,393**	**12,469**	**(12,370)**	**3,492**
Total		**35,894**	**105,509**	**(101,705)**	**39,698**

		2017 1 January	Increase	Decrease	31 December
Salaries, bonuses, allowance and subsidies	(a)	25,524	73,140	(71,835)	26,829
Housing funds	(a)	155	8,212	(8,210)	157
Social insurance including:	(a)	176	5,109	(5,114)	171
– Medical insurance		156	4,611	(4,608)	159
– Maternity insurance		16	330	(339)	7
– Employment injury insurance		4	168	(167)	5
Labor union fees and staff education expenses		4,418	3,269	(2,343)	5,344
Others		3,683	8,799	(9,089)	3,393
Total		33,956	98,529	(96,591)	35,894

(a) Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Other liabilities (Continued)

(2) Staff costs payable (Continued)

(ii) Defined contribution benefits

	2018			
	1 January	Increase	Decrease	31 December
Basic pensions	**527**	**11,808**	**(11,817)**	**518**
Unemployment insurance	**32**	**319**	**(320)**	**31**
Annuity Scheme	**7**	**5,721**	**(3,573)**	**2,155**
Total	**566**	**17,848**	**(15,710)**	**2,704**

	2017			
	1 January	Increase	Decrease	31 December
Basic pensions	456	11,413	(11,342)	527
Unemployment insurance	35	351	(354)	32
Annuity Scheme	130	3,469	(3,592)	7
Total	621	15,233	(15,288)	566

The defined contribution benefits are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(iii) Early retirement benefits

	2018			
	1 January	Increase	Decrease	31 December
Early retirement benefits	**3,762**	**257**	**(1,136)**	**2,883**

	2017			
	1 January	Increase	Decrease	31 December
Early retirement benefits	5,325	77	(1,640)	3,762

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at 31 December	
	2018	2017
Discount rate	**3.00%**	3.80%
Annual average medical expense growth rate	**8.00%**	8.00%
Annual subsidies growth rate	**8.00%**	8.00%
Normal retirement age		
– Male	**60**	60
– Female	**55**	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (year 2010 – 2013) (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Other liabilities (Continued)

(3) Provision

		As at 31 December 2018	2017
Loan commitments and financial guarantee contracts	(i)	**20,523**	3,536
Litigation provision		**4,438**	6,240
Others		**922**	933
Total		**25,883**	10,709

(i) Analyzed by movements in loss allowance for loan commitments and financial guarantee contracts

		Year ended 31 December 2018			
		Stage I	Stage II	Stage III	Total
		12m ECL	Lifetime ECL		
1 January 2018	(a)	**17,204**	**1,519**	**175**	**18,898**
Transfer:					
stage I transfer to stage II		**(1,209)**	**1,209**	**–**	**–**
stage II transfer to stage III		**–**	**(728)**	**728**	**–**
stage II transfer to stage I		**21**	**(21)**	**–**	**–**
Increase	(b)	**9,373**	**1,013**	**–**	**10,386**
Remeasurement		**(313)**	**54**	**(9)**	**(268)**
Decrease	(b)	**(7,279)**	**(1,040)**	**(174)**	**(8,493)**
31 December 2018		**17,797**	**2,006**	**720**	**20,523**

(a) *As at 1 January 2018, the reconciliation of loss allowance for loan commitments and financial guarantee contracts from IAS 39 to IFRS 9 is disclosed in Note II 2.3.*

(b) *The impact of loss allowance driven by new loan commitments and financial guarantee contracts signed in 2018 is disclosed as "Increase". The impact of loss allowance driven by withdrawals, advances or expiration of loan commitments and financial guarantee contracts in 2018 are disclosed as "Decrease". The changes of loss allowance for loan commitments and financial guarantee contracts are mainly driven by the net increase in the exposure of loan commitments and financial guarantee contracts.*

(4) Amount payable to the MOF

Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, the MOF commissioned the Bank to manage and dispose of non-performing assets transferred. The amount payable to the MOF represents proceeds collected by the Bank from the disposal of these non-performing assets on behalf of the MOF.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Ordinary shares

	31 December 2018 Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	**319,244**	**319,244**
Overseas listed H shares, par value RMB1.00 per share	**30,739**	**30,739**
Total	**349,983**	**349,983**

	31 December 2017 Number of shares (millions)	Nominal value
Domestic listed A shares, par value RMB1.00 per share	294,055	294,055
Overseas listed H shares, par value RMB1.00 per share	30,739	30,739
Total	324,794	324,794

(1) A shares refer to the ordinary shares listed in the Mainland China. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.

(2) The Bank has received the Approval on Private Placement of Agricultural Bank of China Limited on A shares (Yin Bao Jian Approval No. [2018] 28) from CBIRC and the Approval Regarding the Private Placement of Agricultural Bank of China Limited (Zheng Jian Approval No. [2018] 936) from the China Securities Regulatory Commission, which approved the Bank's private placement of A-share ordinary shares. In June 2018, the Bank issued 25.19 billion A shares to specific investors with issuance price of RMB3.97 per share. The gross carrying amount of proceeds from the fund-raising was RMB100 billion. The net proceeds from the fund-raising after deducting issuance cost and related taxes was RMB99.97 billion, of which RMB25.19 billion was recorded in share capital and RMB74.78 billion was recorded in capital reserve. The lock-up period for the shares subscribed will last for three or five years respectively.

PricewaterhouseCoopers Zhong Tian LLP has verified the foresaid non-public offering and issued the capital verification report PricewaterhouseCoopers Zhong Tian Yan Zi (2018) No. 0411 for the above shares issued.

(3) As at 31 December 2018, the Bank's A Shares and H Shares were not subject to lock-up restriction, except for the ordinary shares private issued in June 2018 (as at 31 December 2017, all of the Bank's A Shares and H Shares were not subject to lock-up restriction).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Preference shares

Financial instruments in issue	Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversions
Preference shares – first tranche	6% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Preference shares – second tranche	5.5% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year

The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares were issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 31 December 2018. The first tranche preference shares bear a dividend rate of 6% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The 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 2.29%.

The second tranche of 400 million preference shares were issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 31 December 2018. The second tranche preference shares bear a dividend rate of 5.5% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The 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 2.24%.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the 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 equity holders 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 a redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

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 agreed, partially or entirely. The initial conversion price of the preference shares issued by the Bank was RMB2.43 per share. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders. In June 2018, the Bank issued 25.19 billion ordinary A shares to specific investors. Upon completion of the private placement of ordinary shares by the Bank, the mandatory conversion price of the preference shares issued by the Bank will be adjusted from RMB2.43 per share to RMB2.46 per share.

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.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Capital reserve

The capital reserve represents the premium related to ordinary shares issued by the Bank in 2010 and private placement of ordinary shares to the specific stakeholders in 2018. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

36 Investment revaluation reserve

	2018		
	Gross carrying amount	Tax effect	Net effect
31 December 2017	**(26,135)**	**6,445**	**(19,690)**
Change in accounting policy	**13,003**	**(3,112)**	**9,891**
1 January 2018	**(13,132)**	**3,333**	**(9,799)**
Fair value changes on debt instruments at fair value through other comprehensive income:			
– Amount of gains recognized directly in other comprehensive income	**38,212**	**(9,358)**	**28,854**
– Amount removed from other comprehensive income and recognized in profit or loss	**(280)**	**70**	**(210)**
Fair value changes on equity instruments at fair value through other comprehensive income:			
– Amount of gains recognized directly in other comprehensive income	**196**	**(49)**	**147**
31 December 2018	**24,996**	**(6,004)**	**18,992**

	2017		
	Gross carrying amount	Tax effect	Net effect
1 January 2017	4,775	(1,197)	3,578
Fair value changes on available-for-sale financial assets:			
– Amount of losses recognized directly in other comprehensive income	(31,348)	7,752	(23,596)
– Amount removed from other comprehensive income and recognized in profit or loss	438	(110)	328
31 December 2017	(26,135)	6,445	(19,690)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Surplus reserve

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Pursuant to the resolution of the Board of Directors' Meeting held on 29 March 2019, an appropriation of 10% of the profit for the current year, determined under the generally accepted accounting principles of the PRC, to the statutory surplus reserve, in the amount of RMB19,867 million (2017: RMB19,171 million) was approved. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

38 General reserve

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches ("Overseas Institutions") pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

During the year ended 31 December 2018, the Group transferred RMB8,440 million (2017: RMB32,445 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB8,380 million (2017: RMB31,947 million) related to the appropriation proposed for the year ended 31 December 2017 which was approved in the annual general meeting held on 11 May 2018.

On 29 March 2019, the Board of Directors' meeting approved a proposal of appropriation of RMB37,626 million to general reserve. Such appropriation will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	As at 31 December	
	2018	2017
Cash	**98,089**	108,497
Balance with central banks	**230,450**	45,847
Deposits with banks and other financial institutions	**78,352**	98,590
Placements with and loans to banks and other financial institutions	**221,495**	252,570
Financial assets held under resale agreements	**350,055**	495,742
Total	**978,441**	1,001,246

40 Operating segments

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the consolidated financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2018										
External interest income	277,633	114,128	77,565	76,222	75,067	115,740	19,649	28,720	–	784,724
External interest expense	(51,458)	(60,785)	(32,523)	(46,921)	(39,110)	(45,169)	(13,004)	(17,994)	–	(306,964)
Inter-segment interest (expense)/income	(207,818)	43,613	26,581	47,630	40,297	40,271	12,316	(2,890)	–	–
Net interest income	18,357	96,956	71,623	76,931	76,254	110,842	18,961	7,836	–	477,760
Fee and commission income	24,175	16,271	13,087	10,020	10,144	14,088	2,514	1,226	–	91,525
Fee and commission expense	(2,868)	(2,921)	(1,635)	(1,534)	(1,585)	(2,130)	(406)	(305)	–	(13,384)
Net fee and commission income	21,307	13,350	11,452	8,486	8,559	11,958	2,108	921	–	78,141
Net trading gain/(loss)	15,439	(188)	(242)	(261)	(133)	(1,606)	(1,094)	4,154	–	16,069
Net gain/(loss) on financial investments	9,158	(82)	49	(4)	(5)	(10)	–	(646)	–	8,460
Net gain on derecognition of financial assets measured at amortized cost	30	–	–	–	–	–	–	–	–	30
Other operating (expense)/income	(4,616)	1,882	1,173	974	688	1,702	423	19,871	–	22,097
Operating income	59,675	111,918	84,055	86,126	85,363	122,886	20,398	32,136	–	602,557
Operating expenses	(18,453)	(31,046)	(23,218)	(27,681)	(31,651)	(45,244)	(13,449)	(23,221)	–	(213,963)
Credit impairment losses	(4,459)	(18,681)	(11,336)	(36,790)	(23,753)	(32,671)	(6,213)	(2,744)	–	(136,647)
Impairment losses on other assets	–	14	(62)	(8)	(64)	(76)	(55)	–	–	(251)
Operating profit	36,763	62,205	49,439	21,647	29,895	44,895	681	6,171	–	251,696
Share of results of associates and joint ventures	9	–	–	–	–	–	–	(31)	–	(22)
Profit before tax	36,772	62,205	49,439	21,647	29,895	44,895	681	6,140	–	251,674
Income tax expense										(49,043)
Profit for the year										202,631
Depreciation and amortization included in operating expenses	1,361	2,496	1,873	2,602	2,864	3,823	1,149	245	–	16,413
Capital expenditure	959	2,826	2,118	1,907	2,559	3,409	1,017	2,305	–	17,100
As at 31 December 2018										
Segment assets	5,322,502	4,760,141	2,823,835	3,956,866	3,297,149	4,550,800	966,852	1,005,244	(4,187,211)	22,496,178
Including: Investment in associates and joint ventures	236	–	–	–	–	–	–	3,769	–	4,005
Unallocated assets										113,293
Total assets										22,609,471
Include: non-current assets (1)	11,327	31,152	17,018	28,137	27,154	40,804	11,289	18,028	–	184,909
Segment liabilities	(3,676,865)	(4,763,609)	(2,819,997)	(3,987,753)	(3,306,792)	(4,567,877)	(978,231)	(971,384)	4,187,211	(20,885,297)
Unallocated liabilities										(49,387)
Total liabilities										(20,934,684)
Loan commitments and financial guarantee contracts	39,120	529,584	324,158	359,054	297,915	304,479	76,623	79,872	–	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2017										
External interest income	268,082	100,934	66,983	68,460	64,374	103,393	17,701	23,772	–	713,699
External interest expense	(37,623)	(55,790)	(30,608)	(43,439)	(36,783)	(41,631)	(12,717)	(13,178)	–	(271,769)
Inter-segment interest (expense)/income	(220,318)	48,063	26,492	47,025	43,279	42,558	13,844	(943)	–	–
Net interest income	10,141	93,207	62,867	72,046	70,870	104,320	18,828	9,651	–	441,930
Fee and commission income	19,984	15,987	11,780	10,092	9,716	13,984	2,775	939	–	85,257
Fee and commission expense	(2,373)	(2,222)	(1,803)	(1,603)	(1,596)	(2,204)	(486)	(67)	–	(12,354)
Net fee and commission income	17,611	13,765	9,977	8,489	8,120	11,780	2,289	872	–	72,903
Net trading (loss)/gain	(5,969)	(32)	5	53	(27)	52	45	(2,956)	–	(8,829)
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(5,237)	1	18	980	(1)	8	–	987	–	(3,244)
Net (loss)/gain on investment securities	(959)	–	–	68	–	18	–	1,009	–	136
Other operating income	6,386	1,085	677	536	541	4,326	83	26,368	–	40,002
Operating income	21,973	108,026	73,544	82,172	79,503	120,504	21,245	35,931	–	542,898
Operating expenses	(5,775)	(31,317)	(22,776)	(28,579)	(31,033)	(43,548)	(13,553)	(28,687)	–	(205,268)
Impairment losses on assets	192	(21,022)	(13,083)	(25,927)	(10,955)	(21,480)	(4,030)	(1,861)	–	(98,166)
Operating profit	16,390	55,687	37,685	27,666	37,515	55,476	3,662	5,383	–	239,464
Share of results of associates	14	–	–	–	–	–	–	–	–	14
Profit before tax	16,404	55,687	37,685	27,666	37,515	55,476	3,662	5,383	–	239,478
Income tax expense										(46,345)
Profit for the year										193,133
Depreciation and amortization included in operating expenses	1,601	2,796	2,087	2,931	3,155	4,148	1,231	330	–	18,279
Capital expenditure	789	1,085	1,579	2,193	2,263	3,301	897	3,508	–	15,615
As at 31 December 2017										
Segment assets	5,245,493	4,685,961	2,721,293	3,673,909	3,087,743	4,353,179	946,065	926,250	(4,684,262)	20,955,631
Including: Investment in associate	227	–	–	–	–	–	–	–	–	227
Unallocated assets										97,751
Total assets										21,053,382
Include: non-current assets (1)	11,782	31,931	17,599	29,337	28,021	41,821	11,843	12,875	–	185,209
Segment liabilities	(3,874,946)	(4,691,262)	(2,720,278)	(3,690,361)	(3,084,338)	(4,362,114)	(950,890)	(901,129)	4,684,262	(19,591,056)
Unallocated liabilities										(32,929)
Total liabilities										(19,623,985)
Loan commitments and financial guarantee contracts	39,053	488,442	241,298	334,741	201,770	287,590	66,396	89,588	–	1,748,878

(1) *Non-current assets include property and equipment, investment properties, land use rights, intangible assets and other long-term assets.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

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.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

Business operating segments *(Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2018					
External interest income	314,901	191,918	272,138	5,767	784,724
External interest expense	(92,866)	(153,206)	(58,026)	(2,866)	(306,964)
Inter-segment interest Income/(expense)	8,665	158,924	(167,589)	–	–
Net interest income	230,700	197,636	46,523	2,901	477,760
Fee and commission income	47,828	41,797	13	1,887	91,525
Fee and commission expense	(5,730)	(7,608)	(3)	(43)	(13,384)
Net fee and commission income	42,098	34,189	10	1,844	78,141
Net trading gain	–	–	11,283	4,786	16,069
Net (loss)/gain on financial investments	(63)	461	7,874	188	8,460
Net gain on derecognition of financial assets measured at amortized cost	–	–	30	–	30
Other operating income/(expense)	1,923	1,515	(92)	18,751	22,097
Operating income	274,658	233,801	65,628	28,470	602,557
Operating expenses	(75,164)	(93,304)	(23,481)	(22,014)	(213,963)
Credit impairment losses	(106,947)	(26,542)	(3,253)	95	(136,647)
Impairment losses on other assets	(224)	(25)	(2)	–	(251)
Operating profit	92,323	113,930	38,892	6,551	251,696
Share of results of associates and joint ventures	–	–	–	(22)	(22)
Profit before tax	92,323	113,930	38,892	6,529	251,674
Income tax expense					(49,043)
Profit for the year					202,631
Depreciation and amortization included in operating expenses	3,742	9,422	3,062	187	16,413
Capital expenditure	3,480	10,068	3,552	–	17,100
At 31 December 2018					
Segment assets	7,034,426	5,051,815	10,086,338	323,599	22,496,178
Including: Investment in associates and joint ventures	–	–	–	4,005	4,005
Unallocated assets					113,293
Total assets					22,609,471
Segment liabilities	(7,829,685)	(10,800,316)	(2,077,681)	(177,615)	(20,885,297)
Unallocated liabilities					(49,387)
Total liabilities					(20,934,684)
Loan commitments and financial guarantee contracts	1,338,766	672,039	–	–	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

***Business operating segments** (Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2017					
External interest income	288,486	158,017	260,417	6,779	713,699
External interest expense	(84,260)	(143,031)	(42,375)	(2,103)	(271,769)
Inter-segment interest Income/(expense)	4,603	159,790	(164,393)	–	–
Net interest income	208,829	174,776	53,649	4,676	441,930
Fee and commission income	42,349	41,572	–	1,336	85,257
Fee and commission expense	(4,891)	(7,422)	(2)	(39)	(12,354)
Net fee and commission income	37,458	34,150	(2)	1,297	72,903
Net trading loss	–	–	(8,766)	(63)	(8,829)
Net gain/(loss) on financial instruments designated at fair value through profit or loss	338	(5,630)	1,086	962	(3,244)
Net (loss)/gain on investment securities	–	–	(847)	983	136
Other operating income	2,708	2,634	11,470	23,190	40,002
Operating income	249,333	205,930	56,590	31,045	542,898
Operating expenses	(68,169)	(88,182)	(22,326)	(26,591)	(205,268)
Impairment losses on assets	(92,610)	(3,610)	(391)	(1,555)	(98,166)
Operating profit	88,554	114,138	33,873	2,899	239,464
Share of results of associates	–	–	–	14	14
Profit before tax	88,554	114,138	33,873	2,913	239,478
Income tax expense					(46,345)
Profit for the year					193,133
Depreciation and amortization included in operating expenses	3,590	10,683	3,744	262	18,279
Capital expenditure	2,526	7,518	2,635	2,936	15,615
At 31 December 2017					
Segment assets	6,584,597	4,468,376	9,635,618	267,040	20,955,631
Including: Investment in associate	–	–	–	227	227
Unallocated assets					97,751
Total assets					21,053,382
Segment liabilities	(7,306,002)	(10,302,042)	(1,826,344)	(156,668)	(19,591,056)
Unallocated liabilities					(32,929)
Total liabilities					(19,623,985)
Loan commitments and financial guarantee contracts	1,234,005	514,873	–	–	1,748,878

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

***County Area and Urban Area segments** (Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2018				
External interest income	175,438	609,286	–	784,724
External interest expense	(93,223)	(213,741)	–	(306,964)
Inter-segment interest income/(expense)	111,567	(111,567)	–	–
Net interest income	193,782	283,978	–	477,760
Fee and commission income	35,222	56,303	–	91,525
Fee and commission expense	(4,817)	(8,567)	–	(13,384)
Net fee and commission income	30,405	47,736	–	78,141
Net trading (loss)/gain	(267)	16,336	–	16,069
Net gain on financial investments	5	8,455	–	8,460
Net gain on derecognition of financial assets measured at amortized cost	–	30	–	30
Other operating income	4,515	17,582	–	22,097
Operating income	228,440	374,117	–	602,557
Operating expenses	(86,542)	(127,421)	–	(213,963)
Credit impairment losses	(72,661)	(63,986)	–	(136,647)
Impairment losses on other assets	(137)	(114)	–	(251)
Operating profit	69,100	182,596	–	251,696
Share of results of associates and joint ventures	–	(22)	–	(22)
Profit before tax	69,100	182,574	–	251,674
Income tax expense				(49,043)
Profit for the year				202,631
Depreciation and amortization included in operating expenses	7,494	8,919	–	16,413
Capital expenditure	4,123	12,977	–	17,100
At 31 December 2018				
Segment assets	8,067,374	14,537,570	(108,766)	22,496,178
Including: Investment in associates and joint ventures	–	4,005	–	4,005
Unallocated assets				113,293
Total assets				22,609,471
Segment liabilities	(7,553,604)	(13,440,459)	108,766	(20,885,297)
Unallocated liabilities				(49,387)
Total liabilities				(20,934,684)
Loan commitments and financial guarantee contracts	569,419	1,441,386	–	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Operating segments (Continued)

County Area and Urban Area segments *(Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2017				
External interest income	157,305	556,394	–	713,699
External interest expense	(86,537)	(185,232)	–	(271,769)
Inter-segment interest income/(expense)	106,176	(106,176)	–	–
Net interest income	176,944	264,986	–	441,930
Fee and commission income	34,442	50,815	–	85,257
Fee and commission expense	(4,423)	(7,931)	–	(12,354)
Net fee and commission income	30,019	42,884	–	72,903
Net trading gain/(loss)	88	(8,917)	–	(8,829)
Net loss on financial instruments designated at fair value through profit or loss	(1,407)	(1,837)	–	(3,244)
Net gain on investment securities	–	136	–	136
Other operating income	5,956	34,046	–	40,002
Operating income	211,600	331,298	–	542,898
Operating expenses	(83,915)	(121,353)	–	(205,268)
Impairment losses on assets	(44,474)	(53,692)	–	(98,166)
Operating profit	83,211	156,253	–	239,464
Share of results of associates	–	14	–	14
Profit before tax	83,211	156,267	–	239,478
Income tax expense				(46,345)
Profit for the year				193,133
Depreciation and amortization included in operating expenses	8,395	9,884	–	18,279
Capital expenditure	4,440	11,175	–	15,615
At 31 December 2017				
Segment assets	7,585,643	13,400,362	(30,374)	20,955,631
Including: Investment in associate	–	227	–	227
Unallocated assets				97,751
Total assets				21,053,382
Segment liabilities	(7,097,974)	(12,523,456)	30,374	(19,591,056)
Unallocated liabilities				(32,929)
Total liabilities				(19,623,985)
Loan commitments and financial guarantee contracts	449,431	1,299,447	–	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Related party transactions

(1) The Group and the MOF

As at 31 December 2018, the MOF directly owned 39.21% (31 December 2017: 39.21%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditure, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	2017
Assets		
Treasury bonds and special government bond	**655,946**	604,345
Receivable from the MOF	**298,734**	271,678
Interest receivable		
– treasury bonds and special government bond	**N/A**	6,132
– receivable from the MOF	**N/A**	125
Other accounts receivable	**9,444**	10,147
Liabilities		
Amount payable to the MOF	**1,487**	3,154
Customer deposits	**13,250**	8,127
Interest payable	**N/A**	44
Other liability		
– redemption of treasury bonds on behalf of the MOF	**41**	87
– amount payable to the MOF	**80**	–

	Year ended 31 December	
	2018	2017
Interest income	**38,180**	28,778
Interest expense	**(410)**	(213)
Fee and commission income	**3,096**	1,009
Investment income	**174**	–

Interest rate ranges for transactions with the MOF during the year are as follows:

	Year ended 31 December	
	2018	2017
	%	%
Treasury bonds and receivable from the MOF	**2.25-9.00**	2.25-9.00
Customer deposits	**0.00-3.37**	0.05-2.12

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note IV 43 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Related party transactions (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 31 December 2018, Huijin directly owned 40.03% (31 December 2017: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	2017
Assets		
Loans and advances to customers	**28,034**	28,000
Investment in debt securities	**37,438**	13,839
Interest receivable	**N/A**	771
Liabilities		
Principal guaranteed wealth management products issued by the Bank	**–**	15,000
Customer deposits	**12,063**	5,301
Interest payable	**N/A**	122

	Year ended 31 December	
	2018	2017
Interest income	**2,295**	1,029
Interest expense	**(225)**	(903)
Investment income	**19**	–

Interest rate ranges for transactions with Huijin during the year are as follows:

	Year ended 31 December	
	2018	2017
	%	%
Loans and advances to customers	**3.92-4.35**	3.92-4.35
Investment in debt securities	**2.75-5.15**	3.32-4.98
Principal guaranteed wealth management products issued by the Bank	**4.37-4.41**	2.95-4.41
Customer deposits	**1.38-2.18**	1.26-1.76

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Related party transactions (Continued)

(2) The Group and Huijin (Continued)

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

	As at 31 December	
	2018	2017
Assets		
Deposits with banks and other financial institutions	**31,990**	28,959
Precious metal leasing	**712**	2,061
Placements with and loans to banks and other financial institutions	**51,809**	42,563
Derivative financial assets	**3,866**	4,642
Financial assets held under resale agreements	**24,205**	30,335
Loans and advances to customers	**59,338**	17,548
Investment securities	**784,423**	742,623
Liabilities		
Deposits from banks and other financial institutions	**91,880**	39,220
Placements from banks and other financial institutions	**83,786**	44,498
Derivative financial liabilities	**7,920**	1,929
Financial assets sold under repurchase agreements	**360**	16,405
Equity		
Preference shares	**2,000**	2,000
Off-balance sheet items		
Non-principal guaranteed wealth management products issued by the Bank	**1,556**	2,943

(3) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Related party transactions (Continued)

(4) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	2017
Assets		
Placements with and loans to banks and other financial institutions	**29,761**	11,067
Financial assets held under resale agreements	**3,008**	–
Loans and advances to customers	**1,022**	3,649
Interest receivable	**N/A**	68
Other assets	**711**	7
Liabilities		
Deposits from banks and other financial institutions	**4,039**	4,771
Placements from banks and other financial institutions	**63**	160
Deposits from customers	**3,208**	2,117
Interest payable	**N/A**	42
Other liabilities	**721**	–
Off-balance sheet items		
Letters of guarantee issued and guarantees	**16,267**	10,357

	As at 31 December	
	2018	2017
Interest income	**337**	312
Fee and commission income	**1,020**	925
Other operating income	**49**	20
Interest expense	**(108)**	(141)
Operating expense	**(151)**	(29)

	As at 31 December	
	2018	2017
	%	%
Placements with and loans to banks and other financial institutions	**0.50-5.25**	0.01-5.15
Financial assets held under resale agreements	**4.00**	–
Loans and advances to customers	**3.92-4.79**	1.73-4.79
Deposits from banks and other financial institutions	**0.01-3.20**	0.01-5.20
Placements from banks and other financial institutions	**–**	0.10-2.30
Customer deposits	**0.30-3.85**	0.30-2.94

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Related party transactions (Continued)

(5) The Group and its associates and joint venture

The Group had the following balances and transactions with its associates and joint venture in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2018	2017
Placements with and loans to banks and other financial institutions	**157**	133

	Year ended 31 December	
	2018	2017
	%	%
Placements with and loans to banks and mother financial institutions	**0.01**	0.10

For the year ended 31 December 2018 and 31 December 2017, transaction profit or loss between the Group and its associates and joint venture was not significant.

(6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with key management personnel and their related parties in the normal course of business. As at 30 December 2018, the balance of loans and advances to the key management personnel and their related parties is RMB8.24 million (31 December 2017: RMB3.06 million).

The remuneration of Directors and other members of key management during the years was as follows:

	Year ended 31 December	
	2018	2017 (Restated)
Salaries, bonuses and staff welfare	**8.56**	13.14

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for the year ended 31 December 2018 have not been finalized. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group. The final compensation will be disclosed in a separate announcement when determined.

The compensation of key management personnel for the year ended 31 December 2017 was not decided at the time when the Group's 2017 consolidated financial statements were released and the amount of remuneration of Directors and other members of key management recognized in the consolidated income statement for the year of 2017 was RMB8.52 million. Supplementary announcement on final compensation of RMB13.14 million was released by the Bank on 29 August 2018. The comparative figures for the year of 2017 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Related party transactions (Continued)

(7) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	As at 31 December	
	2018	2017
Deposits from Annuity Scheme	**3,197**	135
Interest payable	**N/A**	–

	Year ended 31 December	
	2018	2017
Interest expense	**(36)**	(225)

Interest rate range for transactions with the Annuity Scheme during the year is as follows:

	Year ended 31 December	
	2018	2017
	%	%
Deposits from Annuity Scheme	**0.00-5.00**	0.72-6.20

42 Structured entities

(1) Consolidated structured entities

Principal guaranteed WMPs sponsored and managed by the Group

Principal guaranteed WMPs 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 financial assets and financial liabilities designated at fair value through profit or loss, respectively.

Other consolidated structured entities

Other structured entities consolidated by the Group include certain trust investment plans, asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 31 December 2018, the total assets of these consolidated structured entities were RMB363,248 million (31 December 2017: RMB482,441 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Structured entities (Continued)

(2) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed WMPs, which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income.

As at 31 December 2018, the total assets invested by these WMPs amounted to RMB1,706,487 million (31 December 2017: RMB1,580,527 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,408,263 million (31 December 2017: RMB1,368,878 million). During the year ended 31 December 2018, the Group's interest in these WMPs included net fee and commission income of RMB4,784 million (2017: RMB7,645 million) and net interest income of RMB1,664 million (2017: RMB803 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

The Group enters into placements and repo transactions at market interest rates with these WMPs. The average balance during 2018 and the outstanding balance as at 31 December 2018 of these transactions were RMB50,893 million (weighted average outstanding period of 9.20 days) (2017: RMB23,168 million and 5.31 days) and RMB142,914 million (31 December 2017: RMB84,862 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2018 and 31 December 2017, the outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the period ended 31 December 2018 and 31 December 2017. The Group was not required to absorb any losses incurred by WMPs. During the period ended 31 December 2018 and 2017, no loss was incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

In addition, other unconsolidated structured entities sponsored and managed by the Group included funds and asset management plans. As at 31 December 2018, the total assets of these products amounted to RMB684,653 million (31 December 2017: RMB561,739 million). During the year ended 31 December 2018, the Group's interest in these products mainly included net fee and commission income of RMB1,093 million (2017: RMB695 million).

Unconsolidated structured entities held by the Group

The Group invests in other 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 asset management plans, funds and asset-backed securities. As at 31 December 2018, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB60,663 million, included under the financial assets at fair value through profit or loss, Other debt instrument and other equity investments at fair value through other comprehensive income and debt instrument investments at amortized cost categories in the consolidated statement of financial position as at 31 December 2018 (31 December 2017: RMB45,230 million, included under the financial assets designated at fair value through profit or loss, the available-for-sale financial assets, the held-to-maturity investments and the debt instruments classified as receivables categories in the consolidated statement of financial position). The information on the size of total assets of these unconsolidated structured entities was not readily available in the public domain.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments

Legal proceedings and others

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2018, provisions of RMB4,438 million were made by the Group (31 December 2017: RMB6,240 million) based on court judgments or advice of legal counsel, and included in Note IV 32 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016.

The Bank and its New York Branch are taking affirmative actions to respond to other requirements under these two orders. As at the date of these financial statements, the Group is of the view that it is not practicable to estimate whether there will be any further regulatory actions undertaken by the US regulators as this will be dependent upon the regulatory conclusion after the Bank's and its New York Branch's actions towards the other requirements under these two orders. As such, the Group did not accrue any further provision over this matter as at 31 December 2018.

Capital commitments

	As at 31 December	
	2018	2017
Contracted but not provided for	**2,934**	5,062

In addition, as at 31 December 2018 and 31 December 2017, the Group did not have outstanding equity investment commitments for its investee companies.

Credit commitments

	As at 31 December	
	2018	2017
Loan commitments		
– With an original maturity of less than 1 year	**178,564**	58,038
– With an original maturity of 1 year or above	**728,218**	669,524
Subtotal	**906,782**	727,562
Bank acceptance	**242,489**	233,788
Credit card commitments	**538,870**	426,668
Guarantee and letters of guarantee	**191,250**	220,826
Letters of credit	**131,414**	140,034
Total	**2,010,805**	1,748,878

Credit commitments represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments (Continued)

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, the creditworthiness of counterparties and maturity characteristics of each type of contract. As at 31 December 2018 and 31 December 2017, credit risk weighted amount for credit commitments was measured under the Internal Ratings – Based approach.

	As at 31 December	
	2018	2017
Credit risk weighted amount for credit commitments	**950,993**	866,063

Operating lease commitments

At the end of each reporting period, s, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2018	2017
Within 1 year	**3,663**	3,892
1 to 2 years	**2,576**	2,950
2 to 3 years	**1,798**	2,023
3 to 5 years	**1,753**	2,069
Above 5 years	**816**	1,005
Total	**10,606**	11,939

During the year of 2018, operating lease expense recognized as operating expense by the Group was RMB4,840 million (2017: RMB4,990 million), and is included in Note IV 6 Operating Expenses.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Contingent liabilities and commitments (Continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2018	2017
Debt securities	**163,937**	328,469
Bills	**–**	183
Total	**163,937**	328,652

The financial assets sold under repurchase agreements by the Group (disclosed in Note IV 29) as at 31 December 2018 amounted to RMB157,101 million (31 December 2017: RMB319,789 million). Repurchase agreements are due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note IV 44 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 31 December 2018 amounted to RMB826,551 million in total (31 December 2017: RMB703,492 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note IV 17 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2018 and 31 December 2017.

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus unpaid interest in accordance with the terms of the related early redemption arrangement.

As at 31 December 2018, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB70,702 million (31 December 2017: RMB65,419 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the 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.

Commitment on security underwriting

As at 31 December 2018 and 31 December 2017, the Group did not have unfulfilled commitment in respect of securities underwriting business.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Transferred financial assets

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group retains substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitization transactions

The Group enters into securitization 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 derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its control over these assets based on the criteria as detailed in Note II 12.7 and Note III 6.

As at 31 December 2018, the total amount of unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance was RMB37,378 million (31 December 2017: RMB24,531 million). RMB16,699 million of this balance (31 December 2017: RMB11,723 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full derecognition. The remaining balance of RMB20,679 million (31 December 2017: RMB12,808 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 31 December 2018, the Group continued to recognize assets of RMB2,367 million (31 December 2017: RMB2,941 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transfer of non-performing loans

During the year ended 31 December 2018, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB28,151 million (2017: RMB54,331 million), of which RMB4,976 million (2017: RMB1,569 million) was through issuing asset-back securities disclosed above. The Group carried out an assessment based on the criteria as detailed in Note II 12.7 and Note III 6 and concluded that these transferred assets qualified for full derecognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2018, of these collateral pledged disclosed in Note IV 43 Contingent Liabilities and Commitments – Collateral, RMB46,250 million (31 December 2017: RMB40,647 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2018, the carrying amount of debt securities lent to counterparties was RMB49,342 million (31 December 2017: RMB67,373 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and is intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

45.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under a centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading its credit management system.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Credit risk management (Continued)

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was 66,593 million. The Group still seeks to recover amounts it is legally owned in full, but which have been written off due to no reasonable expectation of full recovery.

During the reporting period, the group enhanced the credit risk management framework and continued to optimize the structure of credit portfolio. The Group strengthened risk prevention and control in key areas, including the monitoring of credit limit by industries, and identify and resolve various potential risks in a timely manner. In addition, the Group broaden the channels for collection and disposal of non-performing loans and maintain stable asset quality.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury operation business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits subject to different level of management authority, and by timely reviewing and adjusting those limits in credit system. In addition, the Group also provide loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Measurement of ECL

After IFRS 9 was adopted on 1 January 2018, the Group applies the ECL model to calculate loss allowances for its debt financial instruments carried at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts.

Methods applied by the Group in assessing the expected credit losses of its financial assets include risk parameters and the discounted cash flow ("DCF") model. Retail credit assets and Stage I and Stage II wholesale credit assets are assessed using risk parameters, while Stage III wholesale credit assets are subject to the discounted cash flow method.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 *Credit risk (Continued)*

Measurement of ECL (Continued)

The Group assesses ECL in light of forward-looking information and uses complex models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers' creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses the judgments, assumptions and estimates where appropriate, including:

– Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

– Parameters for measuring ECL

– Criteria for significant increase in credit risk and default definition

– Definition of credit-impaired financial asset

– Forward-looking information

– Estimation of future cash flows for Stage III wholesale credit assets

Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. The Group classified clients into wholesale clients and retail clients based on the nature of debtors. In performing the portfolio segmentation of wholesale credit assets, the Group considers the type of borrower, industry, loan usage, and security type. When performing the portfolio segmentation for retail credit assets, the Group considers loan product type and security type to ensure the reliability of its credit risk segmentation.

Parameters for measuring ECL

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The key parameters of ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD model, LGD model and EAD model based on the internal rating based system as currently used for its risk management purpose, in accordance with the requirements of IFRS 9, in light of quantitative analyzes of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

***Measurement of ECL** (Continued)*

Parameters for measuring ECL (Continued)

The parameters are defined as follows:

– PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation;

– EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12m EAD) or over the remaining lifetime (Lifetime EAD).

– LGD represents the Group's expectation of the extent of loss on defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if default occurs over the remaining expected lifetime of the loan.

Criteria for significant increase in credit risk ("SICR") and default definition

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging assessment of its financial assets, the Group thoroughly considers various reasonable and supportable information that may reflect whether or not there has been a significant change in their credit risk, including forward-looking information. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments. The definition of default refers to the failure to pay the debt as agreed in the contract, or other violations of the debt contract and have a significant impact on the normal debt repayment.

The Group sets quantitative and qualitative criteria to determine whether or not the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD, changes in its credit risk classification and other factors. In particular, when the credit risk classification changes from Normal upon initial recognition to Special Mention, there has been SICR. When the borrower's PD rises to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varied based on the original PD upon initial recognition. If the borrower's original PD is relatively low (for example, lower than 3%), there has been a significant increase in credit risk when the credit grade falls at least 6 notches. If the criteria to determine significant increase in credit risk moves up or down by one notch, the impact on the allowance of expected credit loss on December 31 2018 is less than 5%. According to IFRS 9, a backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group recognizes a financial instrument as having low credit risk if its internal rating is consistent with the globally accepted definition for low credit risk.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 *Credit risk (Continued)*

Measurement of ECL (Continued)

Definition of credit-impaired financial asset

The criteria with a date of transition of 1 January 2018 adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following factors:

– Significant financial difficulty of the issuer or the borrower;

– A breach of contract, such as a default or past due event in relation to interest or principal payment;

– The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

– It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– The disappearance of an active market for that financial asset because of financial difficulties;

– The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

– The borrower is overdue for more than 90 days in any principal, advances, interest or investment in bonds due to the Group.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Measurement of ECL (Continued)

Forward-looking information

The assessment of whether or not there has been a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various portfolio. Key economic indicators include Gross Domestic Product (GDP), Money Supply (M2) and Consumer Price Index (CPI), etc.

The impact of these economic indicators on the PDs and the LGDs varies from one portfolio to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analyzes to determine the correlation between these economic indicators and the PDs and LGDs. The Group assess and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews and assesses results. Among the forecasted economic indicators, the core economic indicator GDP of base scenario aligned with the development target set and published by the central government.

Based on statistical analyzes and expert judgements, the Group determines the weightings of multiple scenarios and the corresponding macro-economic forecast under each scenario. The macro-economic forecasts of core indicator under upside and downside scenarios deviate less than 10% of that under base scenario. The weighting of base scenario is greater than the aggregated weightings of the rest scenarios. The Group uses the weighted 12-month ECL (Stage I) or weighted lifetime ECL (Stage II and Stage III) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the assigned scenario weighting.

A sensitivity analysis is performed on key economic indicators, economic scenarios and weightings assigned used in forward-looking measurement. When the assigned weightings of upside scenario and downside scenario change by 10% and the forecast of key economic indicators change accordingly, the impact on the allowance of expected credit loss as of 31 December 2018 is less than 5%.

Estimation of future cash flows for Stage III wholesale credit assets

The Group measures the ECL for stage III wholesale credit assets using DCF method. Under DCF method, the loss allowance 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.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptance, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

A summary of the maximum exposure to credit risk is as follows:

		As at 31 December	
		2018	2017
Balances with central banks		**2,707,018**	2,788,122
Deposits with banks and other financial institutions		**109,728**	130,245
Placements with and loans to banks and other financial institutions		**552,013**	505,269
Derivative financial assets		**36,944**	28,284
Financial assets held under resale agreements		**371,001**	540,386
Loans and advances to customers	(i)	**11,461,542**	10,316,311
Financial investments			
Financial asset at fair value through profit or loss		**591,787**	N/A
Debt instrument investments at amortized cost	(ii)	**4,503,698**	N/A
Other debt instrument investments at fair value through other comprehensive income	(iii)	**1,735,892**	N/A
Financial assets held for trading		**N/A**	193,551
Financial assets designated at fair value through profit or loss		**N/A**	368,051
Available-for-sale financial assets		**N/A**	1,398,884
Held-to-maturity investments		**N/A**	3,489,135
Debt instruments classified as receivables		**N/A**	659,223
Other financial assets		**58,992**	155,111
Subtotal		**22,128,615**	20,572,572
Loan commitments and financial guarantee contracts	(iv)	**1,990,282**	1,745,342
Total		**24,118,897**	22,317,914

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements *(Continued)*

(i) Maximum exposure to credit risk for loans and advances disclosed in credit risk levels

The Group classified the credit risk levels of financial assets measured by ECL into "Low"(credit risk in good condition), "Medium"(increased credit risk), and "High"(credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

Corporate loans and advances	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	6,751,757	40,876	6,792,633
Medium	–	283,697	283,697
High	–	159,782	159,782
Gross carrying amount	6,751,757	484,355	7,236,112
Allowance for impairment loss	(183,686)	(192,575)	(376,261)
Net amount	6,568,071	291,780	6,859,851

Personal Loans and advances	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	4,611,259	–	4,611,259
Medium	–	35,785	35,785
High	–	30,220	30,220
Gross carrying amount	4,611,259	66,005	4,677,264
Allowance for impairment loss	(78,018)	(24,864)	(102,882)
Net amount	4,533,241	41,141	4,574,382

The above information on the maximum exposure to credit risk of loans and advances to customers does not include corresponding accured interests or loans and advances to customers measured at fair value through profit or loss.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements *(Continued)*

(ii) Maximum exposure to credit risk for debt instrument investments at amortized cost disclosed in credit risk levels

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	**4,509,520**	**101**	**4,509,621**
Medium	**–**	**942**	**942**
High	**–**	**2,322**	**2,322**
Gross carrying amount	**4,509,520**	**3,365**	**4,512,885**
Allowance for impairment loss	**(6,691)**	**(2,496)**	**(9,187)**
Net amount	**4,502,829**	**869**	**4,503,698**

(iii) Maximum exposure to credit risk for other debt instrument investments at fair value through other comprehensive income disclosed in credit risk levels

	As at 31 December 2018		
	Stage I 12m ECL	Stage II & Stage III Lifetime ECL	Total
Credit risk grade			
Low	**1,730,932**	**203**	**1,731,135**
Medium	**–**	**4,580**	**4,580**
High	**–**	**177**	**177**
Gross carrying amount	**1,730,932**	**4,960**	**1,735,892**

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

***Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements** (Continued)*

(iv) Maximum exposure to credit risk for loan commitments and financial guarantee contracts is balance after estimated contingent liabilities. Majority of loan commitments and financial guarantee contracts is in Stage I with credit risk grade as "Low".

(v) As at 31 December 2018, in its deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements, the Group had insignificant balances with "Medium" or "High" credit risk grade and classified as Stage II or Stage III assets, and no default had occurred.

(vi) The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined through the assessment of credit risk of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

– Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;

– Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and

– Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (i)

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Head Office	**303,637**	**4.2**	246,123	3.7
Yangtze River Delta	**1,548,750**	**21.4**	1,420,351	21.2
Pearl River Delta	**842,577**	**11.6**	762,152	11.3
Bohai Rim	**1,128,923**	**15.6**	1,061,001	15.8
Central China	**1,017,666**	**14.1**	929,075	13.8
Western China	**1,721,056**	**23.8**	1,629,197	24.3
Northeastern China	**296,755**	**4.1**	287,187	4.3
Overseas and Others	**376,997**	**5.2**	379,633	5.6
Subtotal	**7,236,361**	**100.0**	6,714,719	100.0
Personal loans and advances				
Head Office	**66**	**–**	74	–
Yangtze River Delta	**1,125,425**	**24.1**	994,938	25.0
Pearl River Delta	**1,019,760**	**21.8**	873,154	21.8
Bohai Rim	**705,802**	**15.1**	621,563	15.5
Central China	**731,709**	**15.6**	590,247	14.7
Western China	**919,657**	**19.7**	778,946	19.4
Northeastern China	**163,452**	**3.5**	141,351	3.5
Overseas and Others	**11,393**	**0.2**	5,619	0.1
Subtotal	**4,677,264**	**100.0**	4,005,892	100.0
Gross loans and advances to customers	**11,913,625**		10,720,611	

(i) *The below information does not include accrued interests of loans and advances to customers.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Transportation, logistics and postal services	**1,410,827**	**19.5**	1,268,677	18.9
Manufacturing	**1,255,497**	**17.3**	1,286,480	19.2
Leasing and commercial services	**923,992**	**12.8**	803,575	12.0
Production and supply of power, heat, gas and water	**868,758**	**12.0**	812,850	12.1
Real estate	**619,101**	**8.6**	573,248	8.5
Water, environment and public utilities management	**438,208**	**6.1**	372,581	5.5
Retail and wholesale	**385,639**	**5.3**	405,678	6.0
Finance	**600,813**	**8.3**	373,461	5.6
Construction	**245,584**	**3.4**	227,238	3.4
Mining	**201,790**	**2.8**	232,699	3.5
Others	**286,152**	**3.9**	358,232	5.3
Subtotal	**7,236,361**	**100.0**	6,714,719	100.0
Personal loans and advances				
Residential mortgage	**3,661,900**	**78.3**	3,133,503	78.3
Personal business	**216,588**	**4.6**	205,549	5.1
Personal consumption	**166,285**	**3.6**	142,184	3.5
Credit cards	**380,720**	**8.1**	317,547	7.9
Others	**251,771**	**5.4**	207,109	5.2
Subtotal	**4,677,264**	**100.0**	4,005,892	100.0
Gross loans and advances to customers	**11,913,625**		10,720,611	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	31 December 2018 Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	**1,427,185**	**579,653**	**1,203,211**	**3,210,049**
Guaranteed loans	**576,797**	**362,033**	**428,125**	**1,366,955**
Loans secured by collateral	**791,952**	**399,413**	**4,260,910**	**5,452,275**
Pledged loans	**626,118**	**90,126**	**1,168,102**	**1,884,346**
Total	**3,422,052**	**1,431,225**	**7,060,348**	**11,913,625**

	31 December 2017 Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,266,909	620,786	1,028,232	2,915,927
Guaranteed loans	606,458	327,650	425,404	1,359,512
Loans secured by collateral	817,342	409,405	3,718,936	4,945,683
Pledged loans	438,651	79,322	981,516	1,499,489
Total	3,129,360	1,437,163	6,154,088	10,720,611

(4) Past due loans

	31 December 2018 Up to 30 days	31-90 days	91-360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	**11,624**	**2,912**	**7,030**	**445**	**716**	**22,727**
Guaranteed loans	**11,129**	**4,646**	**16,181**	**16,401**	**4,060**	**52,417**
Loans secured by collateral	**28,360**	**16,480**	**31,174**	**31,880**	**9,293**	**117,187**
Pledged loans	**4,033**	**274**	**2,641**	**1,906**	**1,747**	**10,601**
Total	**55,146**	**24,312**	**57,026**	**50,632**	**15,816**	**202,932**

	31 December 2017 Up to 90 days	91-360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	6,489	6,984	2,015	1,249	16,737
Guaranteed loans	22,362	12,158	17,004	5,864	57,388
Loans secured by collateral	51,287	29,410	43,171	8,885	132,753
Pledged loans	10,962	968	3,135	2,123	17,188
Total	91,100	49,520	65,325	18,121	224,066

When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers

As at 31 December 2018, the credit quality of loans and advances to customers by stages is disclosed in Note IV 18.

		31 December 2017
Neither past due nor impaired	(i)	10,471,150
Past due but not impaired	(ii)	55,429
Impaired	(iii)	194,032
Subtotal		10,720,611
Allowance for impairment losses of loans and advances to customers		(404,300)
Loans and advances to customers, net		10,316,311

(i) Loans and advances neither past due nor impaired

	31 December 2017		
	Normal	Special-mention	Total
Corporate loans and advances	6,234,570	298,077	6,532,647
Personal loans and advances	3,934,840	3,663	3,938,503
Total	10,169,410	301,740	10,471,150

(ii) Loans and advances past due but not impaired

	31 December 2017				
	Up to 30 days	31-60 days	61-90 days	Total	Including: Exposure covered by collateral and pledge
Corporate loans and advances	24,500	460	8	24,968	20,477
Personal loans and advances	19,365	6,514	4,582	30,461	22,174
Total	43,865	6,974	4,590	55,429	42,651

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(iii) Impaired loans and advances

	31 December 2017		
	Book value	Allowance for impairment losses	Net book value
Individually assessed	159,805	(122,311)	37,494
Collectively assessed	34,227	(26,723)	7,504
Total	194,032	(149,034)	44,998

Including:

	31 December 2017
Individually assessed and impaired	159,805
Individually assessed and impaired as a percentage of gross loans and advances of the Group	1.49%
Including: exposure covered by collateral and pledge	24,802

The composition of impaired loans and advances to customers by geographical area is analyzed as follows:

	31 December 2017	
	Amount	% of total
Head Office	7	–
Yangtze River Delta	29,460	15.2
Pearl River Delta	26,957	13.9
Bohai Rim	39,031	20.1
Central China	27,377	14.1
Western China	59,314	30.6
Northeastern China	8,438	4.3
Overseas and Others	3,448	1.8
Total	194,032	100.0

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(6) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances to customers which have been renegotiated because of deterioration in the financial position of the borrowers, or due to the inability of the borrowers to meet their original repayment schedule. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Rescheduled loans and advances of the Group as at 31 December 2018 amounted to RMB59,232 million (31 December 2017: RMB55,120 million).

For the year ended 31 December 2018, as a result of loan renegotiations, the Group recognized ordinary shares upon renegotiation of RMB3,221 million (for the year ended 31 December 2017:RMB1,873 million).The loss associated with these loan renegotiations was not significant.

(7) Assets foreclosed under credit enhancement arrangement

Such assets are disclosed as foreclosed assets in Note IV 19.1 Financial assets at fair value through profit or loss and Note IV 24 Other assets.

Debt instruments

Credit quality of debt instruments

(1) Analysis of the expected credit loss stages of debt instrument investments at amortized cost and other debt instruments at fair value through other comprehensive income were disclosed in Note IV19.2 and 19.3, respectively.

(2) The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables under IAS 39:

		31 December 2017
Neither past due nor impaired	(i)	4,152,386
Impaired	(ii)	6,498
Subtotal		4,158,884
Allowance for impairment losses		(10,526)
Total held-to-maturity investments and debt instruments classified as receivables, net		4,148,358

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Debt instruments *(Continued)*

Credit quality of debt instruments (Continued)

(2) The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables under IAS 39: (Continued)

(i) Debt instruments neither past due nor impaired:

	31 December 2017				
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
– Governments	31,464	510,794	1,774,655	169,336	2,486,249
– Public sector and quasi-governments	140,712	312,292	1,269,267	–	1,722,271
– Financial institutions	103,650	398,098	302,240	81,075	885,063
– Corporates	60,762	177,655	149,146	13,273	400,836
Special government bond	–	–	–	93,300	93,300
Receivable from the MOF	–	–	–	271,678	271,678
Certificate treasury bonds and savings treasury bonds	–	–	–	3,612	3,612
Others	12,835	–	–	24,804	37,639
Total	349,423	1,398,839	3,495,308	657,078	5,900,648

(ii) Impaired debt instruments

	31 December 2017		
	Held-to-maturity investments	Debt instruments classified as receivables	Total
Corporate bonds	–	2,614	2,614
Others	–	3,884	3,884
Subtotal	–	6,498	6,498
Allowance for impairment losses	–	(3,068)	(3,068)
Impaired held-to-maturity investments and debt instruments classified as receivables, net	–	3,430	3,430

As at 31 December 2017, the carrying amount of the impaired available-for-sale debt instruments of the Group was RMB45 million. The accumulative impairment losses recognized for these impaired available-for-sale debt instruments by the Group as at 31 December 2017 was RMB312 million.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The carrying amounts of debt securities investments analyzed by their credit rating as at the end of the reporting period are as follows:

Credit grade		As at 31 December 2018 Low	Medium	High	Total
Bonds					
Governments		**3,041,961**	**–**	**–**	**3,041,961**
Public sector and quasi-governments		**1,556,598**	**–**	**–**	**1,556,598**
Financial institutions		**848,336**	**–**	**–**	**848,336**
Corporates	(iii)	**356,695**	**5,292**	**177**	**362,164**
Special government bond		**93,358**	**–**	**–**	**93,358**
Receivable from the MOF		**298,734**	**–**	**–**	**298,734**
Certificate treasury bonds and savings treasury bonds		**3,908**	**–**	**–**	**3,908**
Others		**34,469**	**–**	**62**	**34,531**
Total		**6,234,059**	**5,292**	**239**	**6,239,590**

		31 December 2017 Unrated (ii)	AAA	AA	A	Below A	Total
Debt securities:							
Governments		1,607,333	867,410	5,072	1,731	56	2,481,602
Public sector and quasi-governments		1,483,157	176,302	2,391	60,193	–	1,722,043
Financial institutions		551,733	194,393	27,860	78,676	30,349	883,011
Corporates	(iii)	50,568	305,743	3,224	24,994	18,341	402,870
Special government bond		93,300	–	–	–	–	93,300
Receivable from the MOF		271,678	–	–	–	–	271,678
Certificate treasury bonds and savings treasury bonds		3,612	–	–	–	–	3,612
Others		54,846	–	–	–	–	54,846
Total		4,116,227	1,543,848	38,547	165,594	48,746	5,912,962

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.1 *Credit risk (Continued)*

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating (Continued)

(i) The ratings as at 31 December 2018 were internal ratings obtained from the Group, financial assets at fair value through profit or loss was not included in the credit grade table as at 31 December 2018. The ratings as at 31 December 2017 were obtained from major rating agencies where the issuers of securities are located.

(ii) Unrated debt investments held by the Group are bonds issued primarily by policy banks, the Chinese government, municipal government bonds and receivable from the MOF.

(iii) The ratings of super short-term commercial papers of the Group amounted to RMB27,704 million (31 December 2017: RMB17,110 million) included in corporate bonds above are based on issuer rating for this credit risk analysis.

45.2 *Liquidity risk*

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

– Optimizing asset and liability structure;

– Maintaining stability of deposit base;

– Making projections of future cash flows, and evaluating the appropriate liquid asset position;

– Maintaining an efficient internal funds transfer mechanism within the Group; and

– Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period:

	31 Decemeber 2018								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	321,644	6,895	1,156	6,046	–	–	2,469,366	2,805,107
Deposits with banks and other financial institutions	–	79,736	9,341	4,634	9,409	6,608	–	–	109,728
Placements with and loans to banks and other financial institutions	11	–	240,801	100,189	169,472	37,409	4,131	–	552,013
Derivative financial assets	–	–	7,633	11,579	16,025	1,257	450	–	36,944
Financial assets held under resale agreements	3,872	–	352,749	12,627	1,753	–	–	–	371,001
Loans and advances to customers	14,617	–	538,045	615,065	2,435,236	2,376,458	5,482,121	–	11,461,542
Financial assets at fair value through profit or loss	–	5,268	55,119	70,797	198,207	143,862	134,228	35,764	643,245
Debt instrument investments at amortized cost	–	2	56,424	98,997	414,999	2,410,422	1,522,854	–	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	41,872	103,062	465,868	886,821	238,269	2,240	1,738,132
Other financial assets	1,966	49,601	1,170	614	2,316	52	4	3,269	58,992
Total financial assets	20,466	456,251	1,310,049	1,018,720	3,719,331	5,862,889	7,382,057	2,510,639	22,280,402
Borrowings from central banks	–	(30)	(50,553)	(99,248)	(410,911)	(453)	–	–	(561,195)
Deposits from banks and other financial institutions	–	(556,486)	(41,138)	(243,528)	(225,963)	(35,129)	(22,078)	–	(1,124,322)
Placements from banks and other financial institutions	–	–	(126,386)	(97,578)	(85,617)	(8,518)	(7,442)	–	(325,541)
Financial liabilities at fair value through profit or loss	–	(17,188)	(79,934)	(81,225)	(104,518)	(3,400)	(38)	–	(286,303)
Derivative financial liabilities	–	–	(6,977)	(9,929)	(16,611)	(925)	(112)	–	(34,554)
Financial assets sold under repurchase agreements	–	–	(118,263)	(15,769)	(22,869)	(200)	–	–	(157,101)
Due to customers	–	(10,574,096)	(545,318)	(1,244,458)	(2,695,212)	(2,286,609)	(597)	–	(17,346,290)
Debt securities issued	–	–	(50,591)	(204,552)	(225,219)	(57,346)	(242,965)	–	(780,673)
Other financial liabilities	–	(102,519)	(68,976)	(1,668)	(4,130)	(2,803)	(80)	(1,601)	(181,777)
Total financial liabilities	–	(11,250,319)	(1,088,136)	(1,997,955)	(3,791,050)	(2,395,383)	(273,312)	(1,601)	(20,797,756)
Net position	20,466	(10,794,068)	221,913	(979,235)	(71,719)	3,467,506	7,108,745	2,509,038	1,482,646

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

	31 December 2017								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	151,906	3,740	2,403	5,952	–	–	2,732,618	2,896,619
Deposits with banks and other financial institutions	–	48,237	58,819	9,001	13,807	381	–	–	130,245
Placements with and loans to banks and other financial institutions	–	–	226,817	80,021	153,026	41,519	3,886	–	505,269
Financial assets held for trading	–	1,089	12,546	33,069	68,200	75,772	3,964	–	194,640
Financial assets designated at fair value through profit or loss	–	–	37,565	107,387	51,978	125,641	47,457	13,297	383,325
Derivative financial assets	–	–	4,497	4,850	17,604	1,029	304	–	28,284
Financial assets held under resale agreements	3,872	–	499,251	17,869	19,394	–	–	–	540,386
Loans and advances to customers	23,581	–	499,209	646,162	2,345,151	2,115,703	4,686,505	–	10,316,311
Available-for-sale financial assets	–	–	133,444	102,788	139,887	753,385	285,678	11,238	1,426,420
Held-to-maturity investments	–	–	54,929	128,831	269,426	1,791,968	1,243,981	–	3,489,135
Debt instruments classified as receivables	–	143	2,842	22,286	46,800	127,629	459,523	–	659,223
Other financial assets	2,321	28,530	38,751	33,884	50,971	544	110	–	155,111
Total financial assets	29,774	229,905	1,572,410	1,188,551	3,182,196	5,033,571	6,731,408	2,757,153	20,724,968
Borrowings from central bank	–	(30)	(40,000)	(70,540)	(354,923)	(454)	–	–	(465,947)
Deposits from banks and other financial institutions	–	(495,065)	(220,930)	(126,369)	(73,107)	(59,259)	–	–	(974,730)
Placements from banks and other financial institutions	–	–	(96,494)	(115,380)	(57,125)	(6,330)	(4,732)	–	(280,061)
Financial liabilities held for trading	–	(21,118)	–	–	–	–	–	–	(21,118)
Financial liabilities designated at fair value through profit or loss	–	–	(163,471)	(110,444)	(91,841)	(4,860)	(38)	–	(370,654)
Derivative financial liabilities	–	–	(2,230)	(3,990)	(23,957)	(497)	(198)	–	(30,872)
Financial assets sold under repurchase agreements	–	–	(277,813)	(28,113)	(13,535)	(328)	–	–	(319,789)
Due to customers	–	(10,030,752)	(535,504)	(1,249,943)	(2,551,584)	(1,826,342)	(154)	–	(16,194,279)
Debt securities issued	–	–	(44,803)	(94,537)	(97,102)	(43,679)	(194,896)	–	(475,017)
Other financial liabilities	–	(100,567)	(21,696)	(78,555)	(74,326)	(82,131)	(36,791)	–	(394,066)
Total financial liabilities	–	(10,647,532)	(1,402,941)	(1,877,871)	(3,337,500)	(2,023,880)	(236,809)	–	(19,526,533)
Net position	29,774	(10,417,627)	169,469	(689,320)	(155,304)	3,009,691	6,494,599	2,757,153	1,198,435

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.2 *Liquidity risk (Continued)*

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the other debt instrument and other equity investments at fair value through other comprehensive income (IFRS 9) and available-for-sale financial assets (IAS 39) to repay matured liabilities, if necessary.

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	31 December 2018								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	321,644	6,895	1,156	6,046	–	–	2,469,366	2,805,107
Deposits with banks and other financial institutions	–	79,737	9,348	4,655	9,581	6,608	–	–	109,929
Placements with and loans to banks and other financial institutions	11	–	241,562	101,589	173,608	40,319	4,731	–	561,820
Financial assets held under resale agreements	3,872	–	354,045	12,709	1,812	–	–	–	372,438
Loans and advances to customers	97,822	–	600,427	724,144	2,900,449	3,767,258	8,114,986	–	16,205,086
Financial assets at fair value through profit or loss	–	5,268	55,446	73,150	207,930	169,782	151,036	35,764	698,376
Debt instrument investments at amortized cost	–	2	72,020	126,705	524,909	2,503,816	1,767,087	–	4,994,539
Other debt instrument and other equity investments at fair value through other comprehensive income	–	–	45,883	112,551	500,456	974,855	268,951	2,240	1,904,936
Other financial assets	–	49,239	987	441	2,009	51	2	3,269	55,998
Total non-derivative financial assets	101,705	455,890	1,386,613	1,157,100	4,326,800	7,462,689	10,306,793	2,510,639	27,708,229
Non-derivative financial liabilities									
Borrowings from central banks	–	(30)	(50,619)	(99,748)	(419,625)	(449)	–	–	(570,471)
Deposits from banks and other financial institutions	–	(556,485)	(41,322)	(245,144)	(230,699)	(43,494)	(23,719)	–	(1,140,863)
Placements from banks and other financial institutions	–	–	(126,537)	(98,193)	(87,235)	(10,114)	(8,741)	–	(330,820)
Financial liabilities at fair value through profit or loss	–	(17,188)	(79,597)	(81,187)	(104,672)	(3,400)	(39)	–	(286,083)
Financial assets sold under repurchase agreements	–	–	(118,312)	(15,842)	(23,191)	(229)	–	–	(157,574)
Due to customers	–	(10,575,141)	(546,932)	(1,250,206)	(2,737,934)	(2,446,798)	(711)	–	(17,557,722)
Debt securities issued	–	–	(50,644)	(209,621)	(244,927)	(105,830)	(279,335)	–	(890,357)
Other financial liabilities	–	(102,370)	(68,976)	(1,578)	(4,130)	(2,803)	(80)	(1,601)	(181,538)
Total non-derivative financial liabilities	–	(11,251,214)	(1,082,939)	(2,001,519)	(3,852,413)	(2,613,117)	(312,625)	(1,601)	(21,115,428)
Net position	101,705	(10,795,324)	303,674	(844,419)	474,387	4,849,572	9,994,168	2,509,038	6,592,801

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

	31 December 2017								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	151,906	3,741	3,688	5,952	–	–	2,732,618	2,897,905
Deposits with banks and other financial institutions	–	48,237	59,316	9,121	14,059	433	–	–	131,166
Placements with and loans to banks and other financial institutions	–	–	227,887	81,885	157,594	44,296	5,499	–	517,161
Financial assets held for trading	–	1,089	12,581	33,427	69,312	76,739	4,311	–	197,459
Financial assets designated at fair value through profit or loss	–	–	38,335	109,821	57,576	144,268	54,383	13,297	417,680
Financial assets held under resale agreements	3,872	–	500,347	18,110	19,967	–	–	–	542,296
Loans and advances to customers	128,314	–	558,620	755,681	2,733,620	3,282,327	6,800,862	–	14,259,424
Available-for-sale financial assets	–	–	134,272	104,752	146,132	793,772	326,900	11,238	1,517,066
Held-to-maturity investments	–	–	56,957	134,287	286,304	1,881,236	1,396,308	–	3,755,092
Debt instruments classified as receivables	–	143	2,986	22,954	49,168	138,050	471,212	–	684,513
Other financial assets	–	28,448	795	5,258	1,898	12	7	–	36,418
Total non-derivative financial assets	132,186	229,823	1,595,837	1,278,984	3,541,582	6,361,133	9,059,482	2,757,153	24,956,180
Non-derivative financial liabilities									
Borrowings from central bank	–	(30)	(41,220)	(72,789)	(366,463)	(447)	–	–	(480,949)
Deposits from banks and other financial institutions	–	(495,066)	(223,308)	(131,541)	(79,749)	(66,309)	–	–	(995,973)
Placements from banks and other financial institutions	–	–	(96,846)	(116,595)	(58,214)	(7,649)	(5,445)	–	(284,749)
Financial liabilities held for trading	–	(21,118)	–	–	–	–	–	–	(21,118)
Financial liabilities designated at fair value through profit or loss	–	–	(164,332)	(111,693)	(94,451)	(4,876)	(38)	–	(375,390)
Financial assets sold under repurchase agreements	–	–	(278,384)	(28,329)	(13,757)	(356)	–	–	(320,826)
Due to customers	–	(10,037,044)	(573,267)	(1,304,326)	(2,654,872)	(2,033,087)	(154)	–	(16,602,750)
Debt securities issued	–	–	(44,924)	(94,770)	(97,647)	(44,666)	(195,000)	–	(477,007)
Other financial liabilities	–	(94,303)	(762)	(31,827)	(1,389)	(195)	(36,785)	–	(165,261)
Total non-derivative financial liabilities	–	(10,647,561)	(1,423,043)	(1,891,870)	(3,366,542)	(2,157,585)	(237,422)	–	(19,724,023)
Net position	132,186	(10,417,738)	172,794	(612,886)	175,040	4,203,548	8,822,060	2,757,153	5,232,157

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.2 *Liquidity risk* *(Continued)*

Derivative cash flows

Derivatives settled on a net basis

The fair values of the Group's derivatives that will be settled on a net basis are primarily interest rates products. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	31 December 2018					
	Less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest rate derivatives	**–**	**(12)**	**108**	**260**	**248**	**604**

	31 December 2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	–	12	43	637	125	817

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis are primarily exchange rate derivatives and precious metal derivatives. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	31 December 2018					
	Less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Derivatives settled on a gross basis						
– Cash inflow	**589,624**	**649,674**	**1,636,207**	**49,275**	**502**	**2,925,282**
– Cash outflow	**(588,961)**	**(648,038)**	**(1,637,033)**	**(49,351)**	**(496)**	**(2,923,879)**
Total	**663**	**1,636**	**(826)**	**(76)**	**6**	**1,403**

	31 December 2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a gross basis						
– Cash inflow	343,773	300,972	1,505,759	26,930	477	2,177,911
– Cash outflow	(341,540)	(300,112)	(1,511,810)	(26,987)	(496)	(2,180,945)
Total	2,233	860	(6,051)	(57)	(19)	(3,034)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.2 *Liquidity risk* (Continued)

Off-balance sheet items

The tables below summarize the amounts of credit commitments by remaining maturity. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	31 December 2018			
	Less than 1 year	1-5 years	Over 5 years	Total
Loan commitments	132,322	246,008	528,452	906,782
Bank acceptance	242,489	–	–	242,489
Credit card commitments	538,870	–	–	538,870
Guarantee and letters of guarantee	97,061	79,005	15,184	191,250
Letters of credit	127,042	4,372	–	131,414
Total	1,137,784	329,385	543,636	2,010,805

	31 December 2017			
	Less than 1 year	1-5 years	Over 5 years	Total
Loan commitments	103,736	149,075	474,751	727,562
Bank acceptance	233,788	–	–	233,788
Credit card commitments	426,668	–	–	426,668
Guarantee and letters of guarantee	115,371	85,801	19,654	220,826
Letters of credit	133,670	6,364	–	140,034
Total	1,013,233	241,240	494,405	1,748,878

45.3 *Market risk*

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 Market risk (Continued)

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on-and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

The Bank has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading book, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

VaR Analysis for the Trading Book

Bank

		2018			
		At the end of the year	**Average**	**Maximum**	**Minimum**
Interest rate risk		**109**	**76**	**119**	**44**
Exchange rate risk	(1)	**123**	**117**	**300**	**12**
Commodity risk		**17**	**14**	**19**	**9**
Overall VaR		**120**	**134**	**252**	**57**

		2017			
		At the end of the year	Average	Maximum	Minimum
Interest rate risk		32	49	72	32
Exchange rate risk	(1)	33	51	105	18
Commodity risk		8	11	20	6
Overall VaR		56	73	153	40

The Bank calculates VaR for its trading book (excluding RMBforeign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and gold. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 *Market risk* (Continued)

Market Risk Management for Banking Book (Continued)

Interest Rate Risk Management

The interest rate risk existing in the banking book broadly relates to the mismatch of the maturity or re-pricing dates of interest rate-sensitive financial assets and financial liabilities, as well as inconsistencies in the change of the benchmark interest rates on which most domestic interest rate-sensitive financial assets and financial liabilities are based.

The Group closely monitors changes in the macro-economic environment and the monetary policies of the PBOC, enabling it to timely and flexibly adjusts its pricing strategy. The Group establishes comprehensive interest rate risk management policies and protocols and has improved the consistency of interest rate risk measurement, monitoring, analysis and management of interest rate risk across the Group.

The Group regularly measures and analyzes the Group's interest rate risk by conducting gap analysis, sensitivity analysis, scenario analysis and stress testing to manage interest rate risk within established limits.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	31 December 2018				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,755,814	35,337	906	13,050	2,805,107
Deposits with banks and other financial institutions	41,200	52,583	4,312	11,633	109,728
Placements with and loans to banks and other financial institutions	331,738	167,234	39,896	13,145	552,013
Derivative financial assets	4,587	31,613	81	663	36,944
Financial assets held under resale agreements	371,001	–	–	–	371,001
Loans and advances to customers	11,032,180	331,601	46,919	50,842	11,461,542
Financial assets at fair value through profit or loss	616,802	11,160	12,332	2,951	643,245
Debt instrument investments at amortized cost	4,432,187	58,918	4,928	7,665	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	1,518,932	180,027	3,084	36,089	1,738,132
Other financial assets	49,641	6,592	986	1,773	58,992
Total financial assets	21,154,082	875,065	113,444	137,811	22,280,402
Borrowings from central banks	(560,742)	–	–	(453)	(561,195)
Deposits from banks and other financial institutions	(1,061,287)	(31,565)	(17,438)	(14,032)	(1,124,322)
Placements from banks and other financial institutions	(35,678)	(231,041)	(40,199)	(18,623)	(325,541)
Financial liabilities at fair value through profit or loss	(282,865)	(3,438)	–	–	(286,303)
Derivative financial liabilities	(27,894)	(5,470)	(247)	(943)	(34,554)
Financial assets sold under repurchase agreements	(111,942)	(40,008)	–	(5,151)	(157,101)
Due to customers	(16,963,294)	(332,184)	(23,965)	(26,847)	(17,346,290)
Debt securities issued	(497,790)	(209,896)	(31,747)	(41,240)	(780,673)
Other financial liabilities	(168,772)	(9,668)	(944)	(2,393)	(181,777)
Total financial liabilities	(19,710,264)	(863,270)	(114,540)	(109,682)	(20,797,756)
Net on-balance sheet position	1,443,818	11,795	(1,096)	28,129	1,482,646
Net notional amount of derivatives	66,987	17,299	9,749	(24,713)	69,322
Loan commitments and financial guarantee contracts	1,776,217	191,808	9,655	33,125	2,010,805

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

	31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,855,850	32,052	1,094	7,623	2,896,619
Deposits with banks and other financial institutions	86,294	27,063	3,068	13,820	130,245
Placements with and loans to banks and other financial institutions	337,956	136,594	23,209	7,510	505,269
Financial assets held for trading	194,614	26	–	–	194,640
Financial assets designated at fair value through profit or loss	362,680	6,992	10,383	3,270	383,325
Derivative financial assets	26,228	1,215	21	820	28,284
Financial assets held under resale agreements	540,386	–	–	–	540,386
Loans and advances to customers	9,898,540	314,143	57,764	45,864	10,316,311
Available-for-sale financial assets	1,224,918	162,075	2,955	36,472	1,426,420
Held-to-maturity investments	3,445,956	27,771	12,500	2,908	3,489,135
Debt instruments classified as receivables	653,663	1,346	1,093	3,121	659,223
Other financial assets	145,442	7,001	1,014	1,654	155,111
Total financial assets	19,772,527	716,278	113,101	123,062	20,724,968
Borrowings from central bank	(464,830)	–	–	(1,117)	(465,947)
Deposits from banks and other financial institutions	(932,491)	(28,566)	(13,309)	(364)	(974,730)
Placements from banks and other financial institutions	(41,217)	(164,459)	(54,727)	(19,658)	(280,061)
Financial liabilities held for trading	(21,118)	–	–	–	(21,118)
Financial liabilities designated at fair value through profit or loss	(363,885)	(6,769)	–	–	(370,654)
Derivative financial liabilities	(323)	(29,929)	(390)	(230)	(30,872)
Financial assets sold under repurchase agreements	(276,888)	(37,034)	–	(5,867)	(319,789)
Due to customers	(15,805,966)	(321,932)	(29,750)	(36,631)	(16,194,279)
Debt securities issued	(220,357)	(204,948)	(18,570)	(31,142)	(475,017)
Other financial liabilities	(378,204)	(12,408)	(1,651)	(1,803)	(394,066)
Total financial liabilities	(18,505,279)	(806,045)	(118,397)	(96,812)	(19,526,533)
Net on-balance sheet position	1,267,248	(89,767)	(5,296)	26,250	1,198,435
Net notional amount of derivatives	(46,787)	59,135	18,397	(14,681)	16,064
Loan commitments and financial guarantee contracts	1,484,322	228,505	5,724	30,327	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated statement of financial position.

	31 December 2018		31 December 2017	
RMB	**Profit before tax**	**Other comprehensive income**	Profit before tax	Other comprehensive income
5% appreciation	**(556)**	**240**	(1,094)	(33)
5% depreciation	**556**	**(240)**	1,094	33

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk; commercial and market factors. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 October 2015 for commercial banks.

The Group manages its interest rate risk by:

– Regularly monitoring the macro-economic factors that potentially impact the PBOC benchmark interest rates;

– Optimizing management over the differences in timing between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities; and

– Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities, with reference to the prevailing PBOC benchmark interest rates where appropriate.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 Market risk (Continued)

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

	31 December 2018						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,525,736	–	6,046	–	–	273,325	2,805,107
Deposits with banks and other financial institutions	88,252	4,602	9,325	6,148	–	1,401	109,728
Placements with and loans to banks and other financial institutions	255,919	128,851	161,825	1,823	–	3,595	552,013
Derivative financial assets	–	–	–	–	–	36,944	36,944
Financial assets held under resale agreements	351,927	12,317	1,733	–	–	5,024	371,001
Loans and advances to customers	5,254,390	1,858,490	3,873,792	211,158	236,652	27,060	11,461,542
Financial assets at fair value through profit or loss	57,964	76,890	193,623	132,401	134,775	47,592	643,245
Debt instrument investments at amortized cost	65,371	111,723	407,488	2,344,377	1,493,131	81,608	4,503,698
Other debt instrument and other equity investments at fair value through other comprehensive income	74,705	180,807	439,067	789,488	232,884	21,181	1,738,132
Other financial assets	–	–	–	–	–	58,992	58,992
Total financial assets	8,674,264	2,373,680	5,092,899	3,485,395	2,097,442	556,722	22,280,402
Borrowings from central banks	(49,000)	(96,559)	(406,000)	(456)	–	(9,180)	(561,195)
Deposits from banks and other financial institutions	(598,768)	(241,587)	(220,417)	(34,049)	(21,630)	(7,871)	(1,124,322)
Placements from banks and other financial institutions	(125,830)	(98,972)	(85,916)	(6,450)	(6,657)	(1,716)	(325,541)
Financial liabilities at fair value through profit or loss	(79,464)	(80,720)	(103,108)	(3,400)	(38)	(19,573)	(286,303)
Derivative financial liabilities	–	–	–	–	–	(34,554)	(34,554)
Financial assets sold under repurchase agreements	(118,163)	(15,633)	(22,745)	(200)	–	(360)	(157,101)
Due to customers	(11,034,284)	(1,211,550)	(2,632,559)	(2,205,898)	(475)	(261,524)	(17,346,290)
Debt securities issued	(62,819)	(243,563)	(210,654)	(20,190)	(237,804)	(5,643)	(780,673)
Other financial liabilities	–	–	–	–	–	(181,777)	(181,777)
Total financial liabilities	(12,068,328)	(1,988,584)	(3,681,399)	(2,270,643)	(266,604)	(522,198)	(20,797,756)
Interest rate gap	(3,394,064)	385,096	1,411,500	1,214,752	1,830,838	34,524	1,482,646

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 *Market risk* (Continued)

Interest rate risk (Continued)

	31 December 2017						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,612,008	2,403	5,952	–	–	276,256	2,896,619
Deposits with banks and other financial institutions	105,307	9,801	14,506	381	–	250	130,245
Placements with and loans to banks and other financial institutions	228,642	85,460	151,545	35,736	3,886	–	505,269
Financial assets held for trading	12,546	33,328	67,991	75,722	3,964	1,089	194,640
Financial assets designated at fair value through profit or loss	38,297	108,121	50,598	125,556	47,456	13,297	383,325
Derivative financial assets	–	–	–	–	–	28,284	28,284
Financial assets held under resale agreements	499,251	17,869	19,394	–	–	3,872	540,386
Loans and advances to customers	4,572,496	1,678,914	3,596,541	253,948	214,412	–	10,316,311
Available-for-sale financial assets	171,410	152,062	129,293	688,494	273,923	11,238	1,426,420
Held-to-maturity investments	59,497	171,547	270,895	1,743,231	1,243,965	–	3,489,135
Debt instruments classified as receivables	3,185	22,485	49,238	133,846	450,469	–	659,223
Other financial assets	–	–	–	–	–	155,111	155,111
Total financial assets	8,302,639	2,281,990	4,355,953	3,056,914	2,238,075	489,397	20,724,968
Borrowings from central bank	(40,000)	(70,540)	(354,923)	(454)	–	(30)	(465,947)
Deposits from banks and other financial institutions	(715,735)	(126,369)	(73,110)	(59,259)	–	(257)	(974,730)
Placements from banks and other financial institutions	(96,495)	(119,229)	(57,017)	(4,369)	(2,951)	–	(280,061)
Financial liabilities held for trading	–	–	–	–	–	(21,118)	(21,118)
Financial liabilities designated at fair value through profit or loss	(134,625)	(139,290)	(91,841)	(4,860)	(38)	–	(370,654)
Derivative financial liabilities	–	–	–	–	–	(30,872)	(30,872)
Financial assets sold under repurchase agreements	(277,813)	(28,113)	(13,535)	(328)	–	–	(319,789)
Due to customers	(10,400,858)	(1,249,742)	(2,551,341)	(1,825,885)	(1)	(166,452)	(16,194,279)
Debt securities issued	(52,470)	(118,698)	(89,021)	(19,932)	(194,896)	–	(475,017)
Other financial liabilities	–	–	–	–	–	(394,066)	(394,066)
Total financial liabilities	(11,717,996)	(1,851,981)	(3,230,788)	(1,915,087)	(197,886)	(612,795)	(19,526,533)
Interest rate gap	(3,415,357)	430,009	1,125,165	1,141,827	2,040,189	(123,398)	1,198,435

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Financial risk management (Continued)

45.3 Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as other debt instrument and other equity investments at fair value through other comprehensive income (IFRS 9) and available-for-sale financial assets (IAS 39) held, whose fair value changes are recorded as an element of other comprehensive income.

	31 December 2018		31 December 2017	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(24,024)**	**(67,879)**	(24,928)	(37,095)
–100 basis points	**24,024**	**67,879**	24,928	37,095

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

45.4 Insurance risk

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Capital management

The Group's capital management objectives are as follows:

– maintain an adequate capital base to support the development of its business;

– support the Group's financial stability and profitable growth;

– allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and

– safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

– minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;

– capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;

– additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;

– should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

In April 2014, the CBIRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBIRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBIRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Capital management (Continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC as at the end of the reporting period is as follows:

		31 December 2018	31 December 2017
Common Equity Tier-one Capital Adequacy Ratio	(1)	**11.55%**	10.63%
Tier-one Capital Adequacy Ratio	(1)	**12.13%**	11.26%
Capital Adequacy Ratio	(1)	**15.12%**	13.74%
Common Equity Tier-one Capital	(2)	**1,591,376**	1,347,453
Deductible Items from Common Equity Tier-one Capital	(3)	**(7,449)**	(7,500)
Net Common Equity Tier-one Capital		**1,583,927**	1,339,953
Additional Tier-one Capital	(4)	**79,906**	79,906
Net Tier-one Capital		**1,663,833**	1,419,859
Tier-two Capital	(5)	**409,510**	312,087
Net Capital		**2,073,343**	1,731,946
Risk-weighted Assets	(6)	**13,712,894**	12,605,577

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments

The majority of the Group's assets and liabilities in the consolidated statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 31 December 2018 and 31 December 2017.

47.1 Valuation technique, input and process

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 by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Accounting Department of head office establishes the valuation models for financial assets and financial liabilities of head office and its branches in China and independently implements the valuation on a regular basis; and the Risk Management Department is responsible for validating the valuation model, the Operations Departments records the accounting for these items. Overseas branches and sub-branches designate departments or personnel that are independent from the front trading office to perform valuation in accordance with the local regulatory requirements and their own department settings.

The board of directors shall be responsible for establishing and improving the internal control system related to the valuation of financial instruments and approving valuation policies.

For the year ended 31 December 2018 and 31 December 2017, there was no significant changes in the valuation techniques or inputs used to determine fair value measurements.

47.2 Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments (Continued)

47.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central bank, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

	31 December 2018				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Debt instrument investments at amortized cost (excluding receivable from the MOF and special government bond)	**4,111,606**	**4,172,399**	**19,139**	**3,948,241**	**205,019**
Financial liabilities					
Bonds issued	**282,880**	**291,787**	**26,597**	**265,190**	**–**

	31 December 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	3,489,135	3,395,950	355	3,395,571	24
Debt instruments classified as receivables (excluding receivable from the MOF and special government bond)	294,245	285,737	–	135,993	149,744
Total	3,783,380	3,681,687	355	3,531,564	149,768
Financial liabilities					
Bonds issued	246,833	246,877	1,954	244,923	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments (Continued)

47.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position*

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value.

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Derivative financial assets				
– Exchange rate derivatives	–	35,074	14	35,088
– Interest rate derivatives	–	1,635	19	1,654
– Precious metal contracts and others	–	202	–	202
Subtotal	–	36,911	33	36,944
Loans and advances to customers				
– Discounted bills and forfeiting	–	433,912	–	433,912
– Negotiation L/C	–	249	–	249
Subtotal	–	434,161	–	434,161
Financial investment				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss:				
– Held for trading				
Bonds	–	214,008	–	214,008
Precious metal contracts	–	28,139	–	28,139
Equity and fund	4,440	201	–	4,641
– Other financial assets at fair value through profit or loss				
Bonds	–	71,110	5,775	76,885
Equity and fund	19,937	3,217	13,998	37,152
Others	208	6,786	8,694	15,688
– Financial assets designated at fair value through profit or loss				
Debt securities	181	142,723	–	142,904
Deposits with banks and other financial institutions	–	9,174	–	9,174
Placements with and loans to banks and other financial institutions	–	78,092	32,339	110,431
Others	–	–	4,223	4,223
Subtotal	24,766	553,450	65,029	643,245

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

	31 December 2018 Level 1	Level 2	Level 3	Total
Other debt instrument and other equity investments at fair value through other comprehensive income				
Debt instruments				
– Bonds	80,435	1,641,141	–	1,721,576
– Others	–	–	14,316	14,316
Equity instruments	988	–	1,252	2,240
Subtotal	81,423	1,641,141	15,568	1,738,132
Total assets	106,189	2,665,443	80,850	2,852,482
Financial liabilities at fair value through profit or loss				
– Held for trading				
Financial liabilities related to precious metals	–	(17,188)	–	(17,188)
– Financial liabilities designated at fair value through profit or loss				
Principal guaranteed wealth management products	–	–	(265,715)	(265,715)
Overseas debt securities	–	(3,400)	–	(3,400)
Subtotal	–	(20,588)	(265,715)	(286,303)
Derivative financial liabilities				
– Exchange rate derivatives	–	(31,381)	(14)	(31,395)
– Interest rate derivatives	–	(820)	(19)	(839)
– Precious metal contracts	–	(2,320)	–	(2,320)
Subtotal	–	(34,521)	(33)	(34,554)
Total liabilities	–	(55,109)	(265,748)	(320,857)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments (Continued)

47.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position* (Continued)

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt securities	496	163,453	–	163,949
– Precious metal contracts	–	30,691	–	30,691
Subtotal	496	194,144	–	194,640
Financial assets designated at fair value through profit or loss				
– Debt securities	8,347	161,407	2,885	172,639
– Deposits with banks and other financial institutions	–	93,741	–	93,741
– Placements with and loans to banks and other financial institutions	–	–	92,388	92,388
– Others	1,378	2,489	20,690	24,557
Subtotal	9,725	257,637	115,963	383,325
Derivative financial assets				
– Exchange rate derivatives	–	25,276	18	25,294
– Interest rate derivatives	–	1,125	7	1,132
– Precious metal contracts and others	–	1,858	–	1,858
Subtotal	–	28,259	25	28,284
Available-for-sale financial assets				
– Debt securities	17,672	1,378,581	2,631	1,398,884
– Fund investments	2,783	–	932	3,715
– Equity instruments	3,848	–	3,378	7,226
– Others	–	46	16,252	16,298
Subtotal	24,303	1,378,627	23,193	1,426,123
Total assets	34,524	1,858,667	139,181	2,032,372
Financial liabilities held for trading				
– Financial liabilities related to precious metals	–	(21,118)	–	(21,118)
Financial liabilities designated at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(364,151)	(364,151)
– Overseas debt securities	–	(6,503)	–	(6,503)
Subtotal	–	(6,503)	(364,151)	(370,654)
Derivative financial liabilities				
– Exchange rate derivatives	–	(30,083)	(30)	(30,113)
– Interest rate derivatives	–	(399)	(7)	(406)
– Precious metal contracts	–	(353)	–	(353)
Subtotal	–	(30,835)	(37)	(30,872)
Total liabilities	–	(58,456)	(364,188)	(422,644)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps, currency options and precious metal contracts. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps and currency options are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed WMPs issued by the Group including deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and credit assets. The counterparties of these deposits and placements are primarily commercial banks and non-bank financial institutions in Mainland China. The credit assets are loans and advances to corporate customers in Mainland China. Level 3 financial liabilities largely represented liabilities to the investors of these products. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter relating to credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

There was no significant transfer amongst the different levels of the fair value hierarchy during the years ended 31 December 2018 and 31 December 2017.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments (Continued)

47.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows:

	2018				
	Financial assets at fair value through profit or loss	**Derivative Financial assets**	**Other debt instrument and other equity investments at fair value through other comprehensive income**	**Financial liabilities at fair value through profit or loss**	**Derivative financial liabilities**
1 January 2018	**131,928**	**25**	**11,950**	**(364,151)**	**(37)**
Purchases	**40,833**	**–**	**7,386**	**–**	**–**
Issues	**–**	**–**	**–**	**1,742,672**	**–**
Settlements/disposals	**(109,866)**	**(19)**	**(3,760)**	**(1,633,946)**	**1**
Total loss/(gain) recognized in					
– Profit or loss	**2,134**	**27**	**(7)**	**(10,290)**	**3**
– Other comprehensive income	**–**	**–**	**(1)**	**–**	**–**
30 December 2018	**65,029**	**33**	**15,568**	**(265,715)**	**(33)**
Change in unrealized loss/(gain) for the period included in profit or loss for assets/liabilities held at the end of the year	**(3,390)**	**16**	**–**	**44**	**10**

	2017				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available-for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2017	121,778	73	7,640	(283,666)	(132)
Purchases	1,975,472	–	20,960	–	–
Issuance	–	–	–	(3,778,572)	–
Settlements/disposals	(1,991,329)	(6)	(5,321)	3,707,985	12
Total gains/(losses) recognized in					
– Profit or loss	10,042	(42)	–	(9,898)	83
– Other comprehensive income	–	–	(86)	–	–
31 December 2017	115,963	25	23,193	(364,151)	(37)
Change in unrealized gains/(losses) for the year included in profit or loss for assets/liabilities held at the end of the year	1,605	(43)	–	(44)	73

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Fair value of financial instruments (Continued)

47.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)*

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in net (loss)/gain on financial instruments at fair value through profit or loss of the consolidated income statement.

48 Events after the reporting period

48.1 *Profit appropriation*

(1) Pursuant to the resolutions of the Board of Directors' meeting on 11 January 2019, a cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved and the dividend was distributed on 11 March 2019.

(2) Pursuant to the meeting of the Board of Directors on 29 March 2019, the proposal for profit appropriations of the Bank for the year ended 31 December 2018 are set forth as follows:

(i) An appropriation of RMB19,867 million to the statutory surplus reserve (Note IV 37);

(ii) An appropriation of RMB37,626 million to the general reserve (Note IV 38);

(iii) A cash dividend of RMB0.1739 per ordinary share in respect of the year ended 31 December 2018 based on the number of ordinary shares issued as at 31 December 2018 totaling RMB60,862 million (Note IV 11).

As at 31 December 2018, the statutory surplus reserve had been recognized as appropriation. The other two items will be recognized in the Group's financial statements after approval by ordinary equity holders in the forthcoming Annul General Meeting.

48.2 *Tier-2 capital bonds issued*

As at 19 March 2019, the Bank issued tier-2 capital bonds of RMB60 billion which are divided into two categories. The first one is 15-year fixed rate bonds with a total amount of RMB10 billion and coupon rate of 4.53%, for which the Bank has a conditional right to redeem following the tenth anniversary of the issuance date. The second one is 10-year fixed rate bonds with a total amount of RMB50 billion and coupon rate of 4.28%, for which the Bank has a conditional right to redeem following the fifth anniversary of the issuance date. The proceeds from the issuance of the bonds were used to replenish the Bank's tier-2 capital.

49 Comparatives

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Statement of financial position of the bank

	Notes IV	As at 31 December 2018	2017
Assets			
Cash and balances with central banks		**2,804,746**	2,896,341
Deposits with banks and other financial institutions		**90,380**	115,998
Precious metals		**21,268**	32,008
Placements with and loans to banks and other financial institutions		**581,208**	515,371
Derivative financial assets		**36,944**	28,150
Financial assets held under resale agreements		**369,024**	536,521
Loans and advances to customers		**11,420,286**	10,277,039
Financial investments			
Financial assets at fair value through profit or loss		**497,702**	N/A
Debt instrument investments at amortized cost		**4,467,824**	N/A
Other debt instrument and other equity investments at fair value through other comprehensive income		**1,688,965**	N/A
Financial assets held for trading		**N/A**	120,172
Financial assets designated at fair value through profit or loss		**N/A**	367,552
Available-for-sale financial assets		**N/A**	1,379,329
Held-to-maturity investments		**N/A**	3,477,280
Debt instruments classified as receivables		**N/A**	586,826
Investment in subsidiaries	20	**28,960**	21,660
Investments in associates and joint venture		**236**	227
Controlled structured entities investments		**110,462**	126,400
Property and equipment		**143,296**	147,214
Deferred tax assets		**112,535**	97,320
Other assets		**90,071**	187,922
Total assets		**22,463,907**	20,913,330
Liabilities			
Borrowings from central banks		**561,136**	465,647
Deposits from banks and other financial institutions		**1,128,357**	979,501
Placements from banks and other financial institutions		**291,632**	239,044
Financial liabilities at fair value through profit or loss		**286,303**	391,772
Derivative financial liabilities		**34,525**	30,736
Financial assets sold under repurchase agreements		**152,847**	314,479
Due to customers		**17,346,832**	16,192,746
Debt securities issued		**758,935**	465,323
Other liabilities		**239,961**	410,575
Total liabilities		**20,800,528**	19,489,823

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Statement of financial position of the bank (Continued)

	Notes IV	As at 31 December 2018	2017
Equity			
Ordinary shares	33	**349,983**	324,794
Preference shares	34	**79,899**	79,899
Capital reserve	35	**173,357**	98,574
Investment revaluation reserve	36	**18,890**	(18,934)
Surplus reserve	37	**153,928**	134,061
General reserve	38	**238,215**	230,065
Retained earnings		**647,737**	574,931
Foreign currency translation reserve		**1,370**	117
Total equity		**1,663,379**	1,423,507
Total equity and liabilities		**22,463,907**	20,913,330

Approved and authorized for issue by the Board of Directors on 29 March 2019.

中国农业银行股份有限公司

Zhou Mubing	**Wang Wei**
Chairman	*Executive Director*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Statement of changes in equity of the bank

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 31 December 2017		**324,794**	**79,899**	**98,574**	**(18,934)**	**134,061**	**230,065**	**574,931**	**117**	**1,423,507**
Change in accounting policy		**–**	**–**	**–**	**9,641**	**–**	**(95)**	**(35,243)**	**–**	**(25,697)**
As at 1 January 2018		**324,794**	**79,899**	**98,574**	**(9,293)**	**134,061**	**229,970**	**539,688**	**117**	**1,397,810**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**198,672**	**–**	**198,672**
Other comprehensive income		**–**	**–**	**–**	**28,183**	**–**	**–**	**–**	**1,253**	**29,436**
Total comprehensive income for the year		**–**	**–**	**–**	**28,183**	**–**	**–**	**198,672**	**1,253**	**228,108**
Capital contribution from equity holders	33	**25,189**	**–**	**74,783**	**–**	**–**	**–**	**–**	**–**	**99,972**
Appropriation to surplus reserve	37	**–**	**–**	**–**	**–**	**19,867**	**–**	**(19,867)**	**–**	**–**
Appropriation to general reserve	38	**–**	**–**	**–**	**–**	**–**	**8,245**	**(8,245)**	**–**	**–**
Dividends to ordinary equity holders	11	**–**	**–**	**–**	**–**	**–**	**–**	**(57,911)**	**–**	**(57,911)**
Dividends to preference shareholders	11	**–**	**–**	**–**	**–**	**–**	**–**	**(4,600)**	**–**	**(4,600)**
As at 31 December 2018		**349,983**	**79,899**	**173,357**	**18,890**	**153,928**	**238,215**	**647,737**	**1,370**	**1,663,379**

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 1 January 2017		324,794	79,899	98,574	3,768	114,890	197,695	494,573	1,633	1,315,826
Profit for the year		–	–	–	–	–	–	191,714	–	191,714
Other comprehensive income		–	–	–	(22,702)	–	–	–	(1,516)	(24,218)
Total comprehensive income for the year		–	–	–	(22,702)	–	–	191,714	(1,516)	167,496
Appropriation to surplus reserve	37	–	–	–	–	19,171	–	(19,171)	–	–
Appropriation to general reserve	38	–	–	–	–	–	32,370	(32,370)	–	–
Dividends to ordinary equity holders	11	–	–	–	–	–	–	(55,215)	–	(55,215)
Dividends to preference shareholders	11	–	–	–	–	–	–	(4,600)	–	(4,600)
As at 31 December 2017		324,794	79,899	98,574	(18,934)	134,061	230,065	574,931	117	1,423,507

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