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招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司
CHINA MERCHANTS BANK CO., LTD.

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

(H Share Stock Code: 03968)
(Preference Share Stock Code: 04614)

2020 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of China Merchants Bank Co., Ltd. (the "**Company**") hereby announces the audited results of the Company and its subsidiaries for the year ended 31 December 2020. This announcement, containing the full text of the 2020 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results. Printed version of the Company's 2020 Annual Report will be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and of the Company (www.cmbchina.com) in April 2021.

Publication of Results Announcement

Both the Chinese and English versions of this results announcement are available on the websites of the Company (www.cmbchina.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). In the event of any discrepancies in interpretations between the English version and Chinese version, the Chinese version shall prevail.

The Company has also prepared the annual report in Chinese in accordance with the PRC Generally Accepted Accounting Principles, which is available on the websites of the Company (www.cmbchina.com) and Shanghai Stock Exchange (www.sse.com.cn).

By Order of the Board
China Merchants Bank Co., Ltd.
Miao Jianmin
Chairman

19 March 2021

As at the date of this announcement, the executive directors of the Company are Tian Huiyu, Liu Jianjun and Wang Liang; the non-executive directors of the Company are Miao Jianmin, Fu Gangfeng, Zhou Song, Hong Xiaoyuan, Zhang Jian, Su Min, Wang Daxiong and Luo Sheng; and the independent non-executive directors of the Company are Leung Kam Chung, Antony, Zhao Jun, Wong See Hong, Li Menggang, Liu Qiao and Tian Hongqi.

Contents

Important Notice

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Company confirm that the contents in this annual report are true, accurate, and complete and have no false representations, misleading statements or material omissions, and they will severally and jointly accept legal responsibility for such contents.

2. The 22nd meeting of the Eleventh Session of the Board of Directors of the Company was held at the China Merchants Bank University in Shekou, Shenzhen on 19 March 2021. The meeting was presided by Miao Jianmin, Chairman of the Board of Directors. 17 out of 17 eligible Directors attended the meeting in person. 7 Supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law of the People's Republic of China and the Articles of Association of China Merchants Bank Co., Ltd..

3. Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu (both being auditors of the Company) have separately reviewed the 2020 annual financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Accounting Standards, and have separately issued standard auditing reports with unqualified opinions.

4. Unless otherwise stated, all monetary sums stated in this annual report are expressed in RMB.

5. Miao Jianmin, Chairman of the Company, Tian Huiyu, President and Chief Executive Officer, Wang Liang, Executive Vice President and Chief Financial Officer, and Li Li, the person in charge of the Finance and Accounting Department, hereby make representations in respect of the truthfulness, accuracy and completeness of the financial statements in this annual report.

6. The profit appropriation plan: it was proposed that 10% of the audited net profit of the Company for 2020 of RMB88.674 billion, equivalent to RMB8.867 billion, will be allocated to the statutory surplus reserve, while 1.5% of the total amount of the risk assets, equivalent to RMB8.247 billion, will be appropriated to the general reserve. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company will declare a cash dividend of RMB1.253 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in Renminbi for holders of A Shares and in Hong Kong Dollars for holders of H Shares. The actual profit appropriations amount in HKD would be calculated based on the average benchmark rate for RMB to HKD published by the People's Bank of China for the previous week (including the day of the shareholders' general meeting) before the date of the shareholders' general meeting. The retained profits will be carried forward to the next year. In 2020, the Company did not transfer any capital reserve into share capital. The above profit appropriation plan is subject to consideration and approval at the 2020 Annual General Meeting of the Company.

7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at", and similar expressions to indicate forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will turn into reality or prove to be correct. Therefore they should not be deemed as the Group's commitments. Investors should not place undue reliance on such statements and should pay attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business, or other performances of the Group, and are subject to a number of uncertainties which may cause substantial differences from those in the actual results.

Definitions

The Company, the Bank, CMB or China Merchants Bank:

China Merchants Bank Co., Ltd.

The Group:

China Merchants Bank and its subsidiaries

CBIRC:

China Banking and Insurance Regulatory Commission

CSRC:

China Securities Regulatory Commission

Hong Kong Stock Exchange or SEHK:

The Stock Exchange of Hong Kong Limited

Hong Kong Listing Rules:

The Rules Governing the Listing of Securities on the SEHK

CMB Wing Lung Bank:

CMB Wing Lung Bank Limited

CMB Wing Lung Group:

CMB Wing Lung Bank and its subsidiaries

CMB Financial Leasing or CMBFL:

CMB Financial Leasing Co., Ltd.

CMB International Capital or CMBIC:

CMB International Capital Holdings Corporation Limited

CMB Wealth Management:

CMB Wealth Management Company Limited

China Merchants Fund or CMFM:

China Merchants Fund Management Co., Ltd.

CIGNA & CMB Life Insurance:

CIGNA & CMB Life Insurance Co., Ltd.

MUCFC:

Merchants Union Consumer Finance Company Limited

CM Securities:

China Merchants Securities Co., Ltd.

CMB YunChuang:

CMB YunChuang Information Technology Co., Ltd. with 100% equity interest held by the Company indirectly

CMB Network Technology:

China Merchants Bank Network Technology (Shenzhen) Co., Ltd. with 100% equity interest held by the Company indirectly

Deloitte Touche Tohmatsu Certified Public Accountants LLP:

Deloitte Touche Tohmatsu Certified Public Accountants LLP (Special General Partnership)

SFO:

Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Model Code:

Model Code for Securities Transactions by Directors of Listed Issuers of Hong Kong Stock Exchange

Significant Risk Warning

The Company has disclosed herein the major risks involved in its operations and the proposed risk management measures. Please refer to Chapter III for the details in relation to risk management.

Chairman's Statement

2020 was a truly unprecedented year. With the outbreak of the COVID-19 pandemic, the world economy slid into a severe recession, which aggravated and complicated the international environment. China has seen steady economic recovery thanks to its coordinated efforts dedicated to the prevention and containment of the pandemic as well as the economic and social development, as a result of which China became the only major economy in the world to achieve positive economic growth, securing a decisive victory in the "Three Critical Battles against Major Risks, Poverty and Pollution". Taking the initiative to adapt to China's development state, CMB consistently adhered to its strategic position, achieving extraordinary results in this exceptionally eventful year.

CMB maintained a high-quality growth momentum. Net profit attributable to shareholders of the Bank amounted to RMB97.342 billion in the year, a year-on-year increase of 4.82%. Net operating income amounted to RMB290.279 billion, a year-on-year increase of 7.60%. The weighted return on average equity (ROAE) was 15.73%. The non-performing loan ratio was 1.07%, declining for the fourth consecutive year. The allowance coverage ratio reached 437.68%, indicating a stronger position to withstand risks. The Core Tier 1 capital adequacy ratio under the Weighted Approach has been showing a rebound for three consecutive years, maintaining an endogenous growth. Monthly active users (MAU) of CMB APP and CMB Life APP reached 107 million. Total assets under management (AUM) from retail customers reached RMB8.94 trillion, an increase of more than RMB1.4 trillion in the year. Deposits from customers reached RMB5.63 trillion and deposit structure was further enhanced. The percentage of daily average balance of demand deposits reached 60.00%, up by 2.01 percentage points year-on-year. The balance of the wealth management products reached RMB2.45 trillion. Total amount of asset under custody surpassed RMB16 trillion. Investment in IT for the year was approximately RMB12 billion, a year-on-year increase of more than 20%. A series of new progress was made in the creation of ecological scenarios, the construction of Fintech infrastructure, and digital capabilities. Meanwhile, the total market value of CMB has also reached a new high, and the price-to-book value of A-shares and H-shares continued to be the highest among domestic large and medium-sized listed banks. The Company was awarded the "Best Bank in China" by *Euromoney* once again and it was awarded the "Bank of Year 2020 (China)" by *The Banker* (UK) again since 2016. All of these reflect a high and unarguable recognition of CMB from the public, including the capital market and the media.

CMB proactively discharges its corporate social responsibilities, fighting against the pandemic and supporting the resumption of operation and production. CMB provided assistance to Wuhan without delay by leading the underwriting of the first batch of bonds for pandemic prevention and control and special inter-bank certificates of deposits in China, opened a "green channel for consideration and approval" for key companies involved in pandemic prevention and control to strengthen credit support, and deferred repayment of principal and interest from customers affected by the pandemic. **CMB practices inclusive finance**. Leveraging its advantages of Fintech, CMB promoted the CMB Zhao Dai APP platform and video due diligence to build up a system of online products. As of the end of the reporting period, the balance of inclusive small- and micro-enterprise loans exceeded RMB500 billion, topping other nationwide medium- and small-sized banks in terms of inclusive financial loans. **CMB determines its victory in poverty alleviation**. CMB resolutely implemented decisions and arrangements of the Central Committee of CPC and the State Council. For more than 20 years, a total of 76 cadres for poverty alleviation have been dispatched to work in Yongren and Wuding counties in Yunnan Province to help the two counties get rid of poverty in 2019 and 2020. Although the two counties have been lifted out of poverty, we will continue to devote ourselves to providing sustainable supports.

In September 2020, Mr. Li Jianhong resigned as the Chairman, Non-Executive Director, Chairman of the Strategy Committee and member of the Nomination Committee of CMB due to change of work arrangement. During his term of office, Mr. Li Jianhong followed the principle of stable development and continuously improved market-oriented management mechanisms, raised the Bank's investment in innovative technologies, and led all staff of CMB to achieve great success. On behalf of the Board and all employees of CMB, I would like to express gratitude and appreciation to Mr. Li Jianhong for his outstanding contribution to CMB during his term of office!

2021 marks the centennial of the founding of the Communist Party of China and also is the commencement of implementation of the "14th Five-Year Plan". With the evolving pandemic and numerous uncertainties from external environment, global economic recovery is bound to follow twists and turns, and the divergence among nations will be further intensified. China has stepped into a new stage of development and is practicing new development philosophy and forming a new development pattern, showing strong endogenous driving force. We are still determined and confident to pursue high-quality development in a highly uncertain environment.


Miao Jianmin
Chairman

We will adhere to the market mechanism. The "Three Principles" of the Company will be upheld and remain unchanged, i.e. the President assuming full responsibility under the leadership of the Board of Directors, the market-oriented incentive and restraint mechanism, and the stability and continuity of the cadre team. In particular, we will continue to improve the market-oriented incentive and restraint mechanism to achieve an organic integration of incentives and restraints, and an organic combination of strict management and sincere care.

We will adhere to the established strategies. We will maintain our strategic determination and not deviate from the masterplan. With the strategic vision of "building the best commercial bank in China with innovation-driven development, leading retail banking and distinguished features", we will continue to implement our strategic direction of "Light-model Bank" and the strategic positioning of "One Body with Two Wings". We are not satisfied with our past success, and will develop the capability to seize opportunities in a fleeting moment; we do not wait for the challenges to come, and will hone the skills to overcome the challenges under the uncertainties; we do not count on a lucky break, and will forge the capability to sail through various cycles under the complicated situation.

As "one must adhere to simple approaches to solve complex problems in order to pursue a higher objective", we will focus on building up three core capabilities of wealth management, Fintech and risk management, so as to implement our strategies.

– **How high we can attain depends on wealth management capabilities**. Based on developing our traditional banking business, we will strengthen and expand the wealth management business with low risk and light capital consumption. We will improve our wealth management capabilities in an all-round way focusing on business model, management system, talent team, and incentive and restraint mechanism.

– **How fast we can develop depends on Fintech capabilities**. We will be determined and make unremitting efforts to achieve our long-term goals, accelerate the integration of Fintech resources, increase investment in Fintech, and strive to build industry-leading Fintech capabilities with the characteristics of China Merchants Bank, so as to stand out in the new round of market competition.

– **How far we can reach depends on risk management capabilities**. We will adhere to a prudent risk appetite and culture, improve the allocation capability of major categories of assets, optimise asset structure, and build a strong balance sheet. We will accelerate the establishment of risk management systems, processes, and mechanisms for new businesses to ensure that risk management capabilities can keep up with the development of new businesses and the risks are under control, so as to empower the development of new businesses.

At the historical starting point of the new journey of the "14th Five-Year Plan", we will implement the new development concept, immerse ourselves into the new development pattern, keep our commitment of "customer-centric" and "we are here just for you", forge core competence, focus on high-quality development to create greater value for all stakeholders and continue to write a magnificent chapter in the innovative development of China Merchants Bank!

China Merchants Bank Co., Ltd.
Chairman

19 March 2021

President's Statement

The challenges we faced in 2020 turned out to be more drastic than ever. However, overcoming all obstacles and forging tirelessly ahead, we achieved steady growth in revenue and profit, and secured stable asset quality. Both total assets under management (AUM) from retail customers and core deposits increased by more than RMB1 trillion with our market value topping RMB1 trillion. By virtue of the trust and recognition of our customers and investors, we remained more determinedly true to our original aspiration of staying together with our customers, more convinced of the direction of "Light-model Bank" and further adapted to the positioning of "One Body with Two Wings".

During this year, we took an active part in the fight against the pandemic and poverty by making our modest contribution to the greatness of our nation. Upon the sudden outbreak of the pandemic, we took instant actions to make available on the Chinese New Year's day a dedicated amount of RMB200 million to the people in Wuhan fighting the coronavirus, offered deferred repayment arrangements and implemented measures of fee reduction and interest concession in favor of the real economy, demonstrating our commitment and responsibilities as a financial enterprise. Our poverty alleviation efforts that have been carried on for more than 20 years recorded new milestones: the brand of "Old Tree Walnuts" (老樹核桃) has achieved initial success, "Yi people's embroidery" from the remote mountains has been drawing interests, construction of 70 village clinics sponsored by China Merchants Bank has been completed; and Yongren County and Wuding County in Yunnan Province have been lifted out of poverty. Nevertheless, we will adhere to our promise of "keeping providing continuous supports to those lifted out of poverty". To help the fellow villagers in these two counties to live a prosperous life in the future is the greatest hope of generations of poverty alleviation cadres as well as our commitment.

During the year, we held on to our original aspirations and unwaveringly pushed ahead with our strategic transformation as the world is experiencing accelerated changes unseen in a century. Three years ago, we followed MAU as our North Star Metric into the vast starry sky of digitalisation. During the "social distancing" period of pandemic, our mobile APPs took over to handle customer service requests and did impressively well. Thanks to our well prepared digital service capability together with our caring heart and impressive professionalism, CMB has become the principal bank for settlement and principal bank for wealth management with rising popularity. We continued to accumulate and deepened our understanding of the industrial segments. Based on our insights into corporate customer needs, we pioneered the business philosophy of FPA (aggregate financing products to customers), served the real economy such as new growth engines and manufacturing industries with the strategy of integrating investment banking and commercial banking, provided our own digital service capabilities for the digitisation of enterprises, extended our services to every field of our operation and every aspect of the industrial chain, so as to become the principal bank and first bank to approach more and more corporate customers.

China's 13th Five-Year Plan has come to a successful conclusion. Looking back on the journey we have travelled, we were deeply impressed that the history of CMB is closely tied with the rhythm of the time: it was born in the red soil fertilised by China's reform and opening up and grew up in a great era featuring the rapid growth of China's economy, from which it has benefited tremendously. Now, standing at the critical period to achieve the "Two Centenary Goals", we are even more eager to be part of China's history of high-quality development, resonating with the pulse of China's national rejuvenation, and synchronise ourselves with the people's pursuit of a better life.

With the inception of China's 14th Five-Year Plan, the tide is rising as the wind picks up. With the completion of the construction of a well-off society, the wealth structure of the Chinese people has undergone huge changes under the strategic pattern of "Dual Circulation", along with the introduction of the policies such as "Houses are for living in and not for speculative investment" and the construction of the third pillar for pension insurance, the percentage of financial assets in ordinary households will meet with a rapid growth. With the profound adjustments to China's national economic structure, accelerated pace of direct financing of China's enterprises, deep-reaching reform in the capital market, and the full-scale launch of public REITs, the supply on the asset side has entered a new era of stunning prosperity. Banking is about assets, capital, demand and supply. The vision of transformation and upgrading of the real economy and the Chinese people's desire for a better life are now coming for a historic convergence. As a commercial bank acting as a middleman to match social financing at one end and wealth management needs at the other, we have a bounden duty, **and extensive wealth management has become the main "conduit" to connect the supply and demand sides, serve the real economy and help people realise their dreams for a better life.**

The current of the era and CMB's own development meet here. Fortunately, we entered the game at the right time. Thanks to the unfailing support of millions of our customers and the strategic transformation for the reform of the financial supply side carried on by generations of CMB staff, **today's CMB may be the lucky one who is most probable to realise extensive wealth management.** Banking is a cycle-sensitive, capital-heavy industry, and it has been our dream to make the Bank relatively less cycle-sensitive and less capital-heavy. Compared with this dream, our past achievements seem so insignificant, and this is the reason we have been working hard to explore the 3.0 business model in the first place. Extensive wealth management is the light that leads us through the fog of the future and is closest to the 3.0 model. It is an advanced model for furthering the advancement of our "Light-model Bank" as well as a strategic pillar on which we build our differentiated competitive advantages in the era of low interest rates.

Therefore, in the opening year of the 14th Five-Year Plan, we proudly announced our decision to build a cyclic extensive wealth management value chain, aiming to match the capital with financing needs among our clients more effectively with a brand new model, a wider vision, more professional services and a broader product offering.

We are to target the "vast" clientele. Wealth management is no longer reserved for the high-income elite. Therefore, we hope to see that wealth management could knock on the door of every ordinary Chinese household with the help of our professional services, so that our customers can enjoy the compound interest that grows with time and pursue relative certainty in such an uncertain and fluctuating market. Behind every investment made by our clients, there lies their desire for a better life. Therefore, we long to escort our clients all life long from wealth management education, family business revitalisation to wealth inheritance. For all the advancement brought by the new era, there will be short-term pullbacks and bubbles somewhere, with chaos such as the old customers are charged higher prices through the use of big data as well as excessive investments popping up all over the place. The more chaotic the market is, the more imperative it is for the professional institutions to make a pacifying sound. That is why we are here, to make sure that the "right money" is invested in the "right products" at the "right time" while unwaveringly protecting our clients' right to information and privacy. Other than retail customers, we serve the wealth management needs of corporations and governments since financial needs from different type of customers can complement one another and promote mutual prosperity.

We are to build a "comprehensive" platform. The customer-first philosophy and multi-dimensional services make the base colour of CMB's big platform, as meeting customers' needs has always been our first priority. A single flower does not make spring while a hundred flowers in full blossom bring spring to the garden. Since our distribution of peer banks' financial products last year, we have been welcoming more outstanding asset management institutions to operate on our platform. We embrace all social resources that are conducive to creating value for our customers, so that they can enjoy our open and convenient one-stop financial services on this platform. We will vigorously develop the counselled wealth management and discretionary entrustment businesses, transform from serving the sellers to serving the buyers, act as a product sourcing and asset allocation expert in the whole market, and realise our own value while creating value for our customers in the long run.

We are to promote the "diverse" ecology. The exchange of funds and information between CMB and its customers, as well as between its customers themselves, has constituted an open ecology based on financial scenarios. Internally, we are to open up the value chain of "wealth management – asset management – investment banking" and establish a pattern featuring full-licensed integration of the parent bank, asset management, funds and insurance, realising flywheel effects of various scales. Externally, we are to link the capital and assets of the whole society with the balance sheet from the perspective of our clients. We are also well aware of the fragility and complexity of the ecology. By laying a solid foundation with openness and connection, building up trust with professional services, enhancing loyalty with value creation and securing safety with risk management, we will establish a community of interests among CMB, its customers and partners, so that all members can nourish each other and grow together.

The road to the fulfilment of our dream will never be an easy one. All experiences are valuable. As we step ahead taking challenges of the time, we still stick to our pivot: **technology and culture.**

Tian Huiyu
President

We believe that "talent + digitisation" will definitely be the future of finance. Technology and human are not there to replace each other. On the contrary, technology empowers human while human gives technology life. When chemical reaction is triggered between the power of technology and the vitality of human, it will produce the best customer experience. From online to offline, we will deliver professional knowledge and digital capability to each relationship manager at the frontline of CMB's service system, so that they can understand our customers better. And from offline to online, our professional services will overcome physical constraint and emerge at the scenarios with which our customers have been so familiar, so that our services will always be there throughout the whole process wherever they are.

We believe that culture is the core competence of fundamental importance. Openness and integration will be the only approach to resolve organisational rigidity and involution. In the future, we will have more and more flexible teams integrated by staff from different departments, being active over department boundaries, which will be increasingly blurred. All units work together to serve the customers, and it requires coordination among roles to form a complete chain of services. A company which does not know what to do without talking about KPI is hardly an enterprise ready for the future, so creating value for our customers will be an eternal goal of us. The more confident an enterprise is, the more open it is; the more open it becomes, the stronger it gets. Our self-confidence and expectations are deeply rooted in the culture created and inherited by generations of CMB staff, fostered by the creative vitality spurred by our philosophy known as "Let our employees be their own masters", strengthened by the consensus on value known as "openness, integration, equality and tolerance", and guided by the guidelines of "insisting on doing the right thing, regardless of whether it is in the KPI or not".

In an era of VUCA[1], the world situation is becoming more complex and uncertain. We will adhere to a simple customer service logic amid such complexity while constantly consolidating our advantages with "talent + digitisation", embracing the uncertainty with openness and integration, and navigating our way along with our customers and partners pursuing higher goals and beyond. **There is actually no such thing as highlight moment, we have just been chasing the light. Our original aspiration has shown us a clear route to the future, and self-advancement will get us there.**

China Merchants Bank Co., Ltd.

President

19 March 2021

[1] The era of "VUCA "represents an era of volatile, uncertain, complex, and ambiguous, which reflects the complex and volatile international environment.

Liu Yuan
Chairman of the Board of Supervisors

Company Information

1.1 Company Profile

1.1.1 **Registered Company Name in Chinese:** 招商銀行股份有限公司(Abbreviated Name in Chinese: 招商銀行)
Registered Company Name in English: China Merchants Bank Co., Ltd.

1.1.2 **Legal Representative:** Miao Jianmin
Authorised Representatives: Tian Huiyu, Liu Jianjun
Secretary of the Board of Directors: Liu Jianjun
Joint Company Secretaries: Liu Jianjun, Ho Wing Tsz Wendy
Securities Representative: Huo Jianjun

1.1.3 **Registered and Office Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China

1.1.4 **Mailing Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: +86 755 8319 8888
Fax: +86 755 8319 5109
E-mail: cmb@cmbchina.com
Website: www.cmbchina.com
Customer complaint hotline: 95555-7
Credit card complaint hotline: 400 820 5555-7
Hotline for consumer rights protection: +86 755 8307 7333

1.1.5 **Principal Place of Business in Hong Kong:**
31/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong

1.1.6 **Share Listing:**
A Shares: Shanghai Stock Exchange
Abbreviated Name of A Shares: CMB
Stock Code: 600036
H Shares: SEHK
Abbreviated Name of H Shares: CM BANK
Stock Code: 03968
Domestic Preference Shares: Shanghai Stock Exchange
Abbreviated Name of Shares: Zhao Yin You 1 (招銀優1)
Stock Code: 360028
Offshore Preference Shares: SEHK
Abbreviated Name of Shares: CMB 17USDPREF
Stock Code: 04614

1.1.7 **Domestic Auditor:** Deloitte Touche Tohmatsu Certified Public Accountants LLP
Office Address: 30th Floor, Bund Center, 222 Yan'an Road East, Shanghai, China
Certified Public Accountants for Signature: Zhu Wei, Zeng Hao
International Auditor: Deloitte Touche Tohmatsu
Office Address: 35th Floor, One Pacific Place, 88 Queensway, Hong Kong

1.1.8 **Legal Advisor as to PRC Law:** Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith Freehills

1.1.9 **Registrar for A Shares:** China Securities Depository & Clearing Corporation Ltd., Shanghai Branch
Share Register and Transfer Office as to H Shares: Computershare Hong Kong Investor Services Ltd.
Shops 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong
Registrar for Domestic Preference Shares: China Securities Depository & Clearing Corporation Ltd., Shanghai Branch
Registrar and Transfer Agent for Offshore Preference Shares: The Bank of New York Mellon SA/NV, Luxembourg Branch

1.1.10 **Newspapers and Websites Designated for Information Disclosure:**
Mainland China: *"China Securities Journal", "Securities Times", "Shanghai Securities News"*
website of Shanghai Stock Exchange (www.sse.com.cn)
website of the Company (www.cmbchina.com)
Hong Kong: website of SEHK (www.hkex.com.hk)
website of the Company (www.cmbchina.com)
Place for maintenance of annual reports: Office of the Board of Directors of the Company

1.2 Corporate Business Overview

Founded in 1987 with its Head Office in Shenzhen, China, the Company is a national commercial bank with distinctive features and market influence in China. The Company mainly focuses on the market in China. The Company's distribution network primarily covers major cities in mainland China, as well as international financial centers such as Hong Kong, New York, London, Singapore, Luxembourg and Sydney. For details, please refer to the sections headed "Distribution Channels" and "Branches and Representative Offices". The Company was listed on Shanghai Stock Exchange in April 2002 and on the SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as "All-in-one Card", a multi-function debit card, "All-in-one Net", a comprehensive online banking service platform, credit cards, the "Sunflower Wealth Management" services and private banking services, CMB APP and CMB Life APP, CMB Corporate APP, transaction banking services and offshore business services, such as global cash management and trade financing, asset management, asset custody, investment banking and other services, have been widely recognised by consumers in China. The Company continues to penetrate into the living and business circles of customers, and is committed to providing customers with customised, intelligent and comprehensive solutions.

In 2020, the Company persevered with the strategic transformation of "Light-model Bank", adhered to the positioning of "One Body with Two Wings", revolved around the mainstay of "customers + technologies" with "openness and integration" model as the methodology, built an ecosystem surrounding core customer groups, and forged the Digital Bank in an all-round way. Intensifying its efforts on organisational cultural reforms, the Company explored the 3.0 model of commercial bank development and achieved remarkable results over the past year, which further enhanced its market position, brand influence, and core competitiveness. During the "14th Five-Year Plan" period, the Company will take the building-up of extensive wealth management system as a strategic fulcrum to respond to changes in internal and external situations, making it as the main direction for deepening the transformation of "Light-model Bank" and exploring the construction of a 3.0 business model. For details, please refer to the sections headed "Chairman's Statement"and "President's Statement".

1.3 Development Strategies, Investment Value and Core Competitiveness

Development vision:	Building the "Best Commercial Bank in China" with innovation-driven development, leading retail banking and distinguished features
Strategic objectives:	Closely following the direction of transforming into a "Light-model Bank", accelerating the paces of our construction of the "Light-model Bank" and promoting the balanced development of "quality, efficiency and scale", making constant efforts to achieve qualitative breakthroughs in our endeavor to build us into a Digital Bank, constantly intensifying our risk management efforts to find a final solution, vigorously growing us into a bank that offers the best customer experience, and further enhancing our internationalised and integrated service capabilities.
Strategic positioning:	Adhering to our strategic positioning of "One Body with Two Wings", whereas "One Body" for our retail segment means to take MAU as our "North Star Metric", while focusing on both "customers and technologies", aiming to establish our new competitive edge in the era of mobile internet, and forging a new digital model for retail finance 3.0; the "Two Wings" for our wholesale business means to be oriented towards specialisation, focusing on building a complete wholesale business system, accelerating the digital transformation, and accomplishing the high-quality development of the wholesale finance. We should constantly promote the in-depth integration of "One Body with Two Wings", building it into a complete system which can realise organic circulation and mutual promotion, and forming a highly integrated value chain.

Development Strategies:

Proactively occupying the strategic dominant position in the future. Firstly, we are to accelerate the development of our Fintech strategy, i.e. promoting the qualitative change of the financial technology, empowering the digital transformation of our retail finance 3.0 as well as the upgrade of the industrial Internet model. Secondly, we are to implement the strategy of best customer experience, i.e. establishing a closed-loop monitoring system and indicator system for customer experience, conducting regular evaluations and continuously improving our customers' journey. Thirdly, we are to deepen our risk management strategy, i.e. clearly defining the risk appetites, optimising our risk processes, and establishing a Fintech-driven risk management tool system. Fourthly, we are to promote the synergy efficiently, i.e. creating a coordinated "Wealth Management – Asset Management – Investment Bank" business expansion system, establishing a B2B2C customer-linked operation coordination system, and building a data sharing collaboration system across and beyond the bank.

Pushing forward the transformation of the business model. Firstly, we are to create a platform capabilities-supported new business model for retail finance 3.0, which is Fintech-armed, big data-driven, and MAU-guided, to build a new model of online user acquisition and operation, further promote the digital transformation of retail finance 3.0, and build us into an exceptional bank with the best customer experience. Secondly, we are to promote the high-quality development of our wholesale finance. On the one hand, we must closely follow the direction of the development of our innovative financial services based on the industrial Internet and improve our industry-based comprehensive service capabilities and risk management capabilities. On the other hand, we are to deepen the construction of our customer segmentation and categorisation, as well as a relationship manager management system, and effectively promote the transformation and upgrading of the two major business systems, i.e. transaction banking and investment banking, thereby uplifting the efficiency of "Commercial Bank + Investment Bank" service synergy. Thirdly, we are to comprehensively improve the level of business coordination, management coordination and financial coordination of the Group, and realise the transformation of business capabilities towards a comprehensive business model with economic effect of scale and scope. Fourthly, we are to strengthen our international service capabilities, realise the transformation of international development from external expansion in scale to internal high-quality development, and strive to build us into "a bank with the best customer experience in cross-border financial sector".

Building a strong strategic supporting system. Firstly, we are to advance our technological transformation towards the "Dual-Mode IT", i.e. adhering to the strategy of introducing the leading technologies, adapting to the trend of digitalised, information-based and network-based development, and enhancing our digital innovation capabilities. Secondly, we are to build a light-weight HR management system and build a talent team with outstanding service strategy, structural optimisation, reasonable echelon and excellent ability. Thirdly, we are to strengthen our asset/liability and financial management, continue to improve our professional capabilities and efficiency in asset/liability management, and build a comprehensive, intelligent and professional financial management system. Fourthly, we are to further the construction of our internal control and compliance system in a quantified, standardised and refined way. Fifthly, we are to build a smart operating system to effectively balance the relationship between customer experience, operating efficiency, operating costs, and operating risks. Sixthly, we are to enrich and develop CMB culture and brand, and continue to increase its differentiated advantages and influences.

Investment Value and Core Competitiveness:

Well-developed and refined strategic management. Adhering to the strategy-driven development, the Company's strategic management has become increasingly well-developed. It has given full play to its comparative advantages and management potential amidst the crucial period of technological progress, industrial restructuring and deepening of financial market reform. The Company attains proper strategic positioning and vigorously carries out structural adjustment for business development, customers, channels and products in an effort to promote the dynamic and balanced development of "Quality, Efficiency and Scale", thus navigating a differentiated development path with outstanding performance.

Accelerating innovation and changes in corporate culture. With the "Shekou gene" inherited from the reform and opening up, the Company formulated a business philosophy of "we are here just for you", held onto its core values of "service, innovation and prudence", adhered to the distinct corporate culture that strived for excellence and accelerated innovation and changes in the course of its business development. In recent years, under the backdrop of management upgrading, the "Simple Work Style" has been proposed, and a light-operation culture of "openness, integration, equality and inclusiveness" has gradually formed.

Fully empowered Fintech. The Company endeavoured to build itself into a "Digital Bank", and used Fintech as the locomotive to provide "nuclear power" for its transformation and development, so as to fully empower its business development. Through benchmarking with Fintech companies, the Company will build up the overall infrastructure for the Company's financial science and technology, establish an ecological system for the business of the Company with an open mindset and a long-term perspective, and transform the business management model with the concepts and methods of Fintech so as to strengthen the capability of science and technology, promote the integration of technology with business and promote business agility based on agile technology.

Well-structured layout of business plans. Leveraging on its own endowment of resources, the Company established a clear strategic positioning of "One Body with Two Wings" through its focus on business and customers, built a professional system of "Wealth Management – Asset Management – Investment Bank", thereby creating a large number of industry-leading and distinctive businesses and forming the layout of business plans with a coherent structure and stronger capability to withstand cyclical risks.

Advantageous retail finance. The retail business of the Company set an early lead in the industry and formed an endogenous development system in terms of customer base, channels, products and brands. At the same time, through vigorous promotion of inclusive and intensive growth and enhancement of refined management, key indicators including the proportion of net operating income and profit contribution from retail finance are among the best in the industry. The Company enjoys a leading advantage in its retail finance.

Distinctive wholesale finance. The Company actively builds a market-leading wholesale finance business with distinctive features and leverages on its professional advantages to provide its clients with customised and integrated financial services. New growth engines such as investment banking, transaction banking, asset custody, asset management, bills and financial markets have been growing continuously and professional service capabilities have been recognised by the market and customers.

Scientific and efficient management system. Based on the principle of serving customers and boosting business development, the Company successfully established the comprehensive, modern and scientific risk management system, capital management system, operational management system, information management system, performance appraisal system and human resource management system, acquiring relevant capabilities, and thus guarantee the steady development of business operation in the long run.

Continuous improvement of the organisational system. In accordance with the direction of "professionalism, delayering and intensification", the Company creates an efficient light management structure, establishes an end-to end customer service process and builds organisational models with distinctive features, such as setting up business divisions in the branch level. The professionalisation level and the efficiency of operation and management have been improving and the speed to respond to customer needs and market changes has been picking up.

Industry-leading quality service. The Company developed a unique service model ever since it was founded. Through its long-term practice, it has established its service concept of "we are here just for you". We attach importance to the customer service experience, proactively promote service upgrading, and always keep its service quality ahead. "Good service" has been the brand for the Company to attract customers and expand market.

Excellent professional personnel. The Company has cultivated and created a high-quality talent team through a people-oriented culture and a market-based talent incentive mechanism. Our senior management team has extensive experience and is well settled down. The overall quality of our staff and their professional skills are industry leading. We took a proactive stance on the competition in Fintech by expanding our introduction and cultivation of Fintech talents.

1.4 Honors and Awards

In 2020, the Company received a number of honors and awards from organisations both at home and abroad, including:

- On the list of "2020 Top 500 World Banks" released by The Banker (UK) in February 2020, the Company ranked 9th with a brand value of USD22.884 billion.
- In March 2020, the Company won the "Best Credit Card Bank" and "Best Technology Innovation Award" at the ceremony for the "2020 China Retail Bank Awards" held by Asiamoney.
- In July 2020, the Company ranked 17th, in terms of tier 1 capital, on the list of "Top 1,000 World Banks 2020" released by The Banker (UK), up by 2 places from the previous year and maintained in top 20 for three consecutive years.
- In July 2020, the Company was awarded the "Best Corporate Mobile Service Transaction Bank" and the "Best Technology Innovation Transaction Bank" at the ceremony for the "2020 China Bank of Excellent Transaction" held by Asiamoney.
- In July 2020, the Company received the award of "Best Bank in China" at the "2020 Awards for Excellence" ceremony staged by Euromoney once again.
- In July 2020, the list of Fortune China 500 was announced, on which the Company ranked the 38th in terms of operating income. Following the month in the year, the list of Fortune Global 500 was released, on which the Company appeared for 9 consecutive years, ranking the 189th in terms of operating income.
- In August 2020, in the "2020 International Excellence in Retail Financial Services Awards Program" organised by The Asian Banker, the Company was honored as the "Best Retail Bank in Asia-Pacific Region" and "The Best Wealth Management Bank in the Asia-Pacific Region", and won the title of "Best Retail Bank in China" for the 11th time and the "Best Joint Stock Retail Bank in China" for the 16th time.
- In September 2020, in the "Excellent Listed Company by Ballot" organised by Asiamoney, the Company was honored as the "Best Listed Company in the Financial Industry in China". In the same month, the Company won the "Best Corporate Finance and Investment Bank in China" and the "Best Financial Advisory Bank" awards in the selection of the "2020 Best Corporate Finance and Investment Bank in China" hosted by Asiamoney.
- In September 2020, Global Finance (a renowned magazine based in US) released the 13th "Star of China" award list, on which the Company was awarded the "Best Corporate Social Responsibility Bank".
- In November 2020, in the "15th 21st Century Asian Financial Competitiveness Rankings" hosted by 21st Century Business Herald, the Company won the title of "2020 Asian Excellent Commercial Bank" and "2020 Bank of Brand-building Excellence ".
- In November 2020, The Banker (UK) and PWM announced the results of the selection of "2020 Global Private Bank ", the Company was awarded the "Best Private Bank in China".
- In November 2020, the Company won several exceptional awards, i.e. the "National Employer with Outstanding Achievements ", "Top Three Best Employers", "Most Socially Responsible Employer", "Employer with Most Inspiring Anti-pandemic Spirit" and "Most Admired Employer by Women" at the awards ceremony for the "Best Employer in China 2020" jointly organised by Zhaopin.com and Institute of Social Science Survey, Peking University.
- In December 2020, the selection results were announced by The Banker (UK) at the "2020 Bank of the Year" global online awards ceremony, for which the Company was honored as the "Best Chinese Bank in 2020" and won the title again since 2016.

Professionalism for care

Setting up a special channel for wage and subsidies to directly convey our warmth and solicitude to the front-line medical staff

CMB Wuhan Branch initiated a green channel for wages and special subsidies and completed the payment in the shortest time, allowing the "White Warriors" to receive the State's solicitude as soon as possible.

Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

(in millions of RMB, unless otherwise specified)	2020	2019	Changes +/-%
Operating Results			
Net operating income[(1)]	290,279	269,788	7.60
Profit before tax	122,440	117,132	4.53
Net profit attributable to shareholders of the Bank	97,342	92,867	4.82
Per Share (RMB)			
Basic earnings attributable to ordinary shareholders of the Bank[(2)]	3.79	3.62	4.70
Diluted earnings attributable to ordinary shareholders of the Bank	3.79	3.62	4.70

(in millions of RMB, unless otherwise specified)	31 December 2020	31 December 2019	Changes +/-%
Volume Indicators			
Total assets	8,361,448	7,417,240	12.73
of which: total loans and advances to customers[(3)]	5,029,128	4,490,650	11.99
Total liabilities	7,631,094	6,799,533	12.23
of which: total deposits from customers[(3)]	5,628,336	4,844,422	16.18
Total equity attributable to shareholders of the Bank	723,750	611,301	18.40
Net assets per share attributable to ordinary shareholders of the Bank (RMB)	25.36	22.89	10.79

Notes:

(1) Net operating income is the sum of net interest income, net fee and commission income, other net income as well as share of profits of associates and joint ventures.

(2) The Company issued non-cumulative preference shares in 2017, and issued perpetual bonds in July 2020, all of which were classified as other equity instruments. In addition, the Company paid dividends on the preference shares in 2020. Therefore, when calculating basic earnings per share, return on average equity and net assets per share, dividends on the preference shares were deducted from "net profit attributable to shareholders of the Bank", while the preference shares and perpetual bonds were deducted from both the "average equity" and the "net assets".

(3) In accordance with the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" 《關於修訂印發2018年度金融企業財務報表格式的通知》 issued by the Ministry of Finance, the interest on financial instruments accrued based on the effective interest rate method shall be included in the balance of the relevant financial instruments, and shall be reflected in the relevant items of the financial reports, and the "interest receivable" or "interest payable" item shall no longer be listed separately. The balance of "interest receivable" or "interest payable" listed in the "other assets" or "other liabilities" item is only the interest receivable or payable where the relevant financial instruments have expired but the interest has not yet been received or paid at the balance sheet date. Since the 2018 annual report, the Group has adjusted the financial statements and its accompanying notes in accordance with the above requirements. Unless otherwise stated, the balances of the relevant items herein and set out below do not include the above interest on financial instruments accrued based on the effective interest method.

2.2 Financial Ratios

(%)	2020	2019	Changes
Profitability indicators			
Return on average assets attributable to shareholders of the Bank	1.23	1.31	Decreased by 0.08 percentage point
Return on average equity attributable to ordinary shareholders of the Bank	15.73	16.84	Decreased by 1.11 percentage points
Net interest spread(1)	2.40	2.48	Decreased by 0.08 percentage point
Net interest margin(2)	2.49	2.59	Decreased by 0.10 percentage point
As percentage of net operating income			
– Net interest income	63.74	64.16	Decreased by 0.42 percentage point
– Net non-interest income	36.26	35.84	Increased by 0.42 percentage point
Cost-to-income ratio(3)	33.33	32.08	Increased by 1.25 percentage points
Credit cost ratio(4)	0.98	1.29	Decreased by 0.31 percentage point

(%)	31 December 2020	31 December 2019	Changes over 2019 year-end
Capital adequacy indicators under the Advanced Measurement Approach(5)			
Core Tier 1 capital adequacy ratio	12.29	11.95	Increased by 0.34 percentage point
Tier 1 capital adequacy ratio	13.98	12.69	Increased by 1.29 percentage points
Capital adequacy ratio	16.54	15.54	Increased by 1.00 percentage point
Equity to total assets	8.73	8.33	Increased by 0.40 percentage point
Asset quality indicators			
Non-performing loan ratio	1.07	1.16	Decreased by 0.09 percentage point
Allowance coverage ratio(6)	437.68	426.78	Increased by 10.90 percentage points
Allowance ratio of loans(7)	4.67	4.97	Decreased by 0.30 percentage point

Notes:

(1) Net interest spread = average yield of the total interest-earning assets – average cost ratio of total interest-bearing liabilities.

(2) Net interest margin = net interest income/average balance of total interest-earning assets.

(3) Cost-to-income ratio = operating expenses/net operating income. The numerator does not include taxes and surcharges, provisions for insurance claims and the depreciation charges on fixed assets under operating lease and investment properties.

(4) Credit cost ratio = expected credit losses of loans and advances to customers/the average of total loans and advances to customers × 100%, the average of total loans and advances to customers = (total loans and advances to customers at the beginning of the period + total loans and advances to customers at the end of the period)/2.

(5) As at the end of the reporting period, the Group's Core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio under the Weighted Approach were 10.68%, 12.16% and 13.79% respectively.

(6) Allowance coverage ratio = allowances for impairment losses/balance of non-performing loans.

(7) Allowance ratio of loans = allowances for impairment losses/total loans and advances to customers.

2.3 Five-year Financial Summary

(in millions of RMB)	2020	2019	2018	2017	2016
Results for the year					
Net operating income	290,279	269,788	248,444	221,037	210,270
Operating expenses	102,814	91,497	81,110	70,431	65,148
Impairment losses	65,025	61,159	60,837	59,926	66,159
Profit before tax	122,440	117,132	106,497	90,680	78,963
Net profit attributable to shareholders of the Bank	97,342	92,867	80,560	70,150	62,081
(RMB)					
Per Share					
Dividend (tax inclusive)	1.253	1.20	0.94	0.84	0.74
Basic earnings attributable to ordinary shareholders of the Bank	3.79	3.62	3.13	2.78	2.46
Diluted earnings attributable to ordinary shareholders of the Bank	3.79	3.62	3.13	2.78	2.46
Year-end net assets attributable to ordinary shareholders of the Bank	25.36	22.89	20.07	17.69	15.95
(in millions of RMB)					
Year end					
Share capital	25,220	25,220	25,220	25,220	25,220
Total shareholders' equity	730,354	617,707	543,605	483,392	403,362
Total liabilities	7,631,094	6,799,533	6,202,124	5,814,246	5,538,949
Deposits from customers	5,628,336	4,844,422	4,400,674	4,064,345	3,802,049
Total assets	8,361,448	7,417,240	6,745,729	6,297,638	5,942,311
Total loans and advances to customers	5,029,128	4,490,650	3,933,034	3,565,044	3,261,681
(%)					
Key Financial Ratios					
Return on average assets attributable to shareholders of the Bank	1.23	1.31	1.24	1.15	1.09
Return on average equity attributable to ordinary shareholders of the Bank	15.73	16.84	16.57	16.54	16.27
Cost-to-income ratio	33.33	32.08	31.04	30.21	27.60
Non-performing loan ratio	1.07	1.16	1.36	1.61	1.87
Core Tier 1 capital adequacy ratio under the Advanced Measurement Approach	12.29	11.95	11.78	12.06	11.54
Tier 1 capital adequacy ratio under the Advanced Measurement Approach	13.98	12.69	12.62	13.02	11.54
Capital adequacy ratio under the Advanced Measurement Approach	16.54	15.54	15.68	15.48	13.33

Offering protection with sincerity

Proactively providing preferential loans to facilitate companies to fight against the pandemic

On 3 February 2020, CMB established a special credit facility of RMB10 billion to specifically support key enterprises involved in pandemic prevention and control in China, sparing no effort to achieve victory in pandemic prevention and control.

Report of the Board of Directors

3.1 Analysis of Overall Operation

In 2020, although facing a series of challenges including the unexpected outbreak of the pandemic, the intensive launch of regulatory policies, the complex and ever-changing domestic and international situation and the drastic volatility in financial market, the Group stuck to its strategic direction of "Light-model Bank" and strategic positioning of "One Body with Two Wings" in carrying out its various operations steadily and healthily. As a result, the Group witnessed a steady growth in net operating income, a steady growth in profit, a strong growth momentum in the scale of assets and liabilities and a tested asset quality.

In 2020, the Group realised the net operating income of RMB290.279 billion, representing a year-on-year increase of 7.60%, and realised a net profit attributable to shareholders of the Bank of RMB97.342 billion, representing a year-on-year increase of 4.82%; a net interest income of RMB185.031 billion, representing a year-on-year increase of 6.90%; a net non-interest income of RMB105.248 billion, representing a year-on-year increase of 8.84%; a return on average asset (ROAA) attributable to shareholders of the Bank and a return on average equity (ROAE) attributable to ordinary shareholders of the Bank of 1.23% and 15.73%, down by 0.08 percentage point and 1.11 percentage points year-on-year, respectively.

As at the end of the reporting period, the Group's total assets amounted to RMB8,361.448 billion, representing an increase of 12.73% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB5,029.128 billion, representing an increase of 11.99% as compared with the end of the previous year. Total liabilities amounted to RMB7,631.094 billion, representing an increase of 12.23% as compared with the end of the previous year. Total deposits from customers amounted to RMB5,628.336 billion, representing an increase of 16.18% as compared with the end of the previous year.

As at the end of the reporting period, the Group had a gross non-performing loans of RMB53.615 billion, representing an increase of RMB1.340 billion as compared with the end of the previous year. The non-performing loan ratio was 1.07%, down by 0.09 percentage point as compared with the end of the previous year. The allowance coverage ratio was 437.68%, representing an increase of 10.90 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.67%, representing a decrease of 0.30 percentage point as compared with the end of the previous year.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

In 2020, the Group realised a profit before tax of RMB122.440 billion, representing a year-on-year increase of 4.53%. The effective income tax rate was 19.99%, representing a year-on-year decrease of 0.25 percentage point. The following table sets out the changes in major income/loss items of the Group in 2020.

(in millions of RMB)	**2020**	2019	Changes
Net interest income	**185,031**	173,090	11,941
Net fee and commission income	**79,486**	71,493	7,993
Other net income	**22,881**	23,482	(601)
Operating expenses	**(102,814)**	(91,497)	(11,317)
Share of profits of associates and joint ventures	**2,881**	1,723	1,158
Expected credit losses	**(64,871)**	(61,066)	(3,805)
Impairment losses on other assets	**(154)**	(93)	(61)
Profit before tax	**122,440**	117,132	5,308
Income tax	**(24,481)**	(23,709)	(772)
Net profit	**97,959**	93,423	4,536
Net profit attributable to shareholders of the Bank	**97,342**	92,867	4,475

3.2.2 Net operating income

In 2020, the net operating income of the Group was RMB290.279 billion, representing an increase of 7.60% as compared with the previous year. The net interest income accounted for 63.74% of the net operating income, and the net non-interest income accounted for 36.26% of the operating income, representing a year-on-year increase of 0.42 percentage point.

The following table sets out the percentages of the components of the net operating income of the Group in the recent three years.

(%)	2020	2019	2018
Net interest income	63.74	64.16	64.56
Net fee and commission income	27.38	26.50	26.76
Other net income	7.89	8.70	8.16
Share of profits of associates and joint ventures	0.99	0.64	0.52
Total	100.00	100.00	100.00

3.2.3 Interest income

In 2020, the Group recorded an interest income of RMB307.425 billion, representing a year-on-year increase of 4.93%, mainly due to the increase in interest-earning assets. Interest income from loans and advances to customers continued to be the biggest component of the interest income of the Group.

Interest income from loans and advances to customers

In 2020, the interest income from loans and advances to customers of the Group was RMB236.104 billion, representing a year-on-year increase of 6.36%.

The following table sets forth the average balance (daily average balance, same as below), interest income and average yield of each component of loans and advances to customers of the Group for the periods indicated.

	2020			2019		
(in millions of RMB, except for percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	2,024,891	80,575	3.98	1,818,831	78,914	4.34
Retail loans	2,506,828	147,704	5.89	2,220,299	134,763	6.07
Discounted bills	291,660	7,825	2.68	250,635	8,302	3.31
Loans and advances to customers	4,823,379	236,104	4.89	4,289,765	221,979	5.17

In 2020, from the perspective of the maturity structure of loans and advances to customers of the Company, the average balance of short-term loans was RMB1,769.447 billion with the interest income amounting to RMB99.564 billion, and the average yield reached 5.63%; the average balance of medium-to-long term loans was RMB2,725.642 billion with the interest income amounting to RMB125.050 billion, and the average yield reached 4.59%. The average yield of short-term loans was higher than that of medium-to-long term loans, which was mainly attributable to the higher yield of credit card loans and micro-finance loans in short-term loans.

Interest income from investments

In 2020, the interest income from investments of the Group was RMB51.843 billion, representing a year-on-year increase of 6.01%. The average yield of investments was 3.42%, representing a year-on-year decrease of 24 basis points, which was mainly attributable to the impact of the falling market interest rates.

Interest income from balances and placements with banks and other financial institutions

In 2020, the interest income of the Group from balances and placements with banks and other financial institutions was RMB12.003 billion, representing a year-on-year decrease of 16.38%, and the average yield of balances and placements with banks and other financial institutions was 1.95%, representing a year-on-year decrease of 56 basis points, which was primarily attributable to the falling market interest rates.

3.2.4 Interest expense

In 2020, the interest expense of the Group was RMB122.394 billion, representing a year-on-year increase of 2.08%, which was primarily attributable to the growth of interest-bearing liabilities.

Interest expense on deposits from customers

In 2020, the Group's interest expense on deposits from customers was RMB83.252 billion, representing a year-on-year increase of 13.38%. Under the circumstance where the deposits from customers grew rapidly, the Group optimised its structure of deposits from customers and imposed effective control on pricing, which contributed to a decrease in the cost ratio of deposit as compared with the previous year.

The following table sets forth the average balances, interest expenses and average cost ratios of the deposits from corporate and retail customers of the Group for the periods indicated.

	2020			2019		
(in millions of RMB, except for percentages)	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Deposits from corporate customers						
Demand	1,964,687	17,052	0.87	1,607,847	13,245	0.82
Time	1,496,594	42,746	2.86	1,363,971	38,900	2.85
Subtotal	3,461,281	59,798	1.73	2,971,818	52,145	1.75
Deposits from retail customers						
Demand	1,261,244	4,377	0.35	1,081,045	3,973	0.37
Time	654,057	19,077	2.92	584,104	17,312	2.96
Subtotal	1,915,301	23,454	1.22	1,665,149	21,285	1.28
Total	5,376,582	83,252	1.55	4,636,967	73,430	1.58

Interest expense on deposits and placements from banks and other financial institutions

In 2020, the interest expense on deposits and placements from banks and other financial institutions of the Group amounted to RMB15.481 billion, representing a year-on-year decrease of 18.86%, which was primarily due to the decrease in interest rate of funds from financial institutions.

Interest expense on debt securities issued

In 2020, the interest expense on debt securities issued of the Group amounted to RMB14.652 billion, representing a year-on-year decrease of 16.90%, which was mainly due to, firstly, the impact of the falling market interest rate; and secondly, the decrease in the size of debt securities issued attributable to the Group's continuous optimisation on the structure of liabilities.

3.2.5 Net interest income

In 2020, the Group's net interest income amounted to RMB185.031 billion, representing a year-on-year increase of 6.90%.

The following table sets out the average balances, interest income/interest expense and average yield/cost ratio of assets and liabilities of the Group for the periods indicated.

	2020			2019		
(in millions of RMB, except for percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	4,823,379	236,104	4.89	4,289,765	221,979	5.17
Investments	1,513,824	51,843	3.42	1,335,247	48,902	3.66
Balances with the central bank	490,092	7,475	1.53	493,722	7,759	1.57
Balances and placements with banks and other financial institutions	615,316	12,003	1.95	570,995	14,354	2.51
Total	7,442,611	307,425	4.13	6,689,729	292,994	4.38

(in millions of RMB, except for percentages)	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	5,376,582	83,252	1.55	4,636,967	73,430	1.58
Deposits and placements from banks and other financial institutions	941,182	15,481	1.64	843,293	19,079	2.26
Debt securities issued	453,885	14,652	3.23	504,241	17,631	3.50
Borrowings from the central bank	282,976	8,413	2.97	300,662	9,207	3.06
Lease liabilities	14,582	596	4.09	13,605	557	4.09
Total	7,069,207	122,394	1.73	6,298,768	119,904	1.90
Net interest income	/	185,031	/	/	173,090	/
Net interest spread	/	/	2.40	/	/	2.48
Net interest margin	/	/	2.49	/	/	2.59

In 2020, the average yield of our interest-earning assets was 4.13%, representing a year-on-year decrease of 25 basis points; the average cost ratio of our interest-bearing liabilities was 1.73%, representing a year-on-year decrease of 17 basis points; the net interest spread and the net interest margin were 2.40% and 2.49%, representing a year-on-year decrease of 8 and 10 basis points, respectively.

The following table sets forth the breakdown of changes in interest income and interest expenses due to changes in volumes and interest rates of the Group for the periods indicated. Changes in volume were measured by changes in average balances, while changes in interest rate were measured by changes in the average interest rates; the changes in interest income and interest expenses due to changes in both volume and interest rates have been included in the amount of changes in interest income and interest expenses due to changes in volume.

	2020 compared to 2019		
	Increase (decrease) due to		Net increase
(in millions of RMB)	Volume	Interest rate	(decrease)
Interest-earning assets			
Loans and advances to customers	26,120	(11,995)	14,125
Investments	6,116	(3,175)	2,941
Balances with the central bank	(55)	(229)	(284)
Balances and placements with banks and other financial institutions	865	(3,216)	(2,351)
Changes in interest income	**33,046**	**(18,615)**	**14,431**
Interest-bearing liabilities			
Deposits from customers	11,452	(1,630)	9,822
Deposits and placements from banks and other financial institutions	1,610	(5,208)	(3,598)
Debt securities issued	(1,626)	(1,353)	(2,979)
Borrowings from the central bank	(526)	(268)	(794)
Lease liabilities	40	(1)	39
Changes in interest expense	**10,950**	**(8,460)**	**2,490**
Changes in net interest income	**22,096**	**(10,155)**	**11,941**

The following table sets out the average balances, interest income/interest expenses and annualised average yields/cost ratios of assets and liabilities of the Group for the periods indicated.

(in millions of RMB, except for percentages)	October to December 2020			July to September 2020		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances to customers	4,962,288	58,507	4.69	4,905,038	59,221	4.80
Investments	1,632,347	13,440	3.28	1,566,338	13,395	3.40
Balances with the central bank	502,181	1,891	1.50	481,111	1,840	1.52
Balances and placements with banks and other financial institutions	587,365	2,836	1.92	534,047	2,610	1.94
Total	**7,684,181**	**76,674**	**3.97**	**7,486,534**	**77,066**	**4.10**

(in millions of RMB, except for percentages)	Average balance	Interest expense	Annualised average cost ratio (%)	Average balance	Interest expense	Annualised average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	5,577,767	20,944	1.49	5,433,452	20,392	1.49
Deposits and placements from banks and other financial institutions	997,144	4,172	1.66	987,908	3,880	1.56
Debt securities issued	374,261	2,952	3.14	392,734	3,130	3.17
Borrowings from the central bank	274,157	1,962	2.85	252,407	1,868	2.94
Lease liabilities	15,547	148	3.79	11,746	134	4.54
Total	**7,238,876**	**30,178**	**1.66**	**7,078,247**	**29,404**	**1.65**
Net interest income	/	**46,496**	/	/	**47,662**	/
Net interest spread	/	/	**2.31**	/	/	**2.45**
Net interest margin	/	/	**2.41**	/	/	**2.53**

In the fourth quarter of 2020, the net interest margin of the Group was 2.41%, down by 12 basis points as compared with the third quarter of 2020, and its net interest spread was 2.31%, down by 14 basis points as compared with the third quarter of 2020, mainly because firstly, in order to meet the business needs of customers, the Group increased its volume of existing house mortgage asset-backed securitisation business in the fourth quarter, as a result of which the interest income for the period was negatively impacted to a certain extent; and secondly, the Group strengthened its credit card risk management by taking initiatives to optimise the structure of credit card assets and increasing the proportion of low-to-medium risk high-quality assets, as a result of which the pricing level of assets moderately fell.

3.2.6 Net non-interest income

In 2020, the Group recorded a net non-interest income of RMB105.248 billion, representing a year-on-year increase of 8.84%. The components are as follows:

Net fee and commission income amounted to RMB79.486 billion, representing a year-on-year increase of 11.18%. Among the fee and commission income, commissions from trust and other fiduciary activities amounted to RMB26.742 billion, representing a year-on-year increase of 13.51%, which was mainly due to the steady upward trend in the scale of wealth management products, the increase in custodian scale as well as the continuous optimisation of the structure of custody products. Income from bank card fees amounted to RMB19.551 billion, being flat year-on-year mainly due to the impact of pandemic and the growth in the income from debit and credit card transaction fee was restricted. Income from agency services fees amounted to RMB18.507 billion, representing a year-on-year increase of 35.28%, which was primarily attributable to the rapid growth in income from agency distribution of funds as a result of active capital market. Income from settlement and clearing fees amounted to RMB12.651 billion, representing a year-on-year increase of 10.09%, which was primarily attributable to the increase in the income of e-payment. The commissions from credit commitment and loan business amounted to RMB6.191 billion, representing a year-on-year decrease of 1.89%, which was primarily attributable to the decrease in the fee income of financial leasing business of CMB Financial Leasing.

Other net non-interest income amounted to RMB25.762 billion, representing a year-on-year increase of 2.21%, of which, net loss from fair value change amounted to RMB1.660 billion, mainly due to the decrease of valuation of funds resulting from the increase of dividend of investments in non-monetary funds. Net investment income amounted to RMB16.281 billion, representing a year-on-year increase of 15.90%, mainly due to the increase in dividend of investments in non-monetary funds. Net profit from exchange gain amounted to RMB2.202 billion, representing a year-on-year decrease of 32.43%, mainly due to the increase in exchange loss arising from the foreign currency-denominated monetary items held by the Group as a result of the appreciation of RMB in 2020. Other income amounted to RMB6.058 billion, representing a year-on-year increase of 4.61%, mainly due to the increase in the income from operating leases of CMB Financial Leasing.

In terms of business segments, the net non-interest income from retail finance amounted to RMB52.945 billion, representing a year-on-year increase of 10.41% and accounting for 50.30% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB39.740 billion, representing a year-on-year increase of 10.23% and accounting for 37.76% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB12.563 billion, representing a year-on-year decrease of 1.04% and accounting for 11.94% of the Group's net non-interest income.

(in millions of RMB)	2020	2019
Fee and commission income	86,684	79,047
Bank card fees	19,551	19,551
Settlement and clearing fees	12,651	11,492
Agency service fees	18,507	13,681
Commissions from credit commitment and loan business	6,191	6,310
Commissions on trust and fiduciary activities	26,742	23,560
Others	3,042	4,453
Fee and commission expense	(7,198)	(7,554)
Net fee and commission income	79,486	71,493
Other net non-interest income	25,762	25,205
Other net income	22,881	23,482
Net (loss)/profit from fair value change	(1,660)	384
Net investment income	16,281	14,048
Exchange gain	2,202	3,259
Other income	6,058	5,791
Share of profits of associates and joint ventures	2,881	1,723
Total net non-interest income	105,248	96,698

3.2.7 Operating expenses

In 2020, the Group's operating expenses amounted to RMB102.814 billion, representing an increase of 12.37% as compared with the previous year, among which staff costs increased by 10.89% and other general and administrative expenses increased by 15.68% as compared with the previous year. The cost-to-income ratio was 33.33%, representing an increase of 1.25 percentage points as compared with the previous year. The increase in operating expenses was primarily attributable to: firstly, the Group continuously reinforced its technology-based capability, and increased its investment in digital infrastructure and R&D talents to accelerate the transformation of Fintech; secondly, the Group fostered its ability to acquire customers by digital means and carry out digital operations across all business lines, increased its investment in customer operation, value enhancement and other related business areas, so as to facilitate the realisation of transformation goal of business model 3.0; thirdly, the Group increased investment in the upgrade of the hardware and software of its digital outlets in order to improve the outlets' brand image and service level. The Company's cost-to-income ratio was 33.82%, up by 1.29 percentage points as compared with the previous year.

The following table sets forth, for the periods indicated, the principal components of the operating expenses of the Group.

(in millions of RMB)	2020	2019
Staff costs	57,040	51,439
Depreciation, amortisation and rental expenses	13,611	12,059
Other general and administrative expenses	29,389	25,406
Allowances for insurance claims	296	245
Taxes and surcharges	2,478	2,348
Total operating expenses	**102,814**	91,497

3.2.8 Expected credit losses

In 2020, the expected credit losses of the Group were RMB64.871 billion, representing a year-on-year increase of 6.23%.

The following table sets forth, for the periods indicated, the principal components of expected credit losses of the Group.

(in millions of RMB)	2020	2019
Loans and advances to customers	46,882	54,214
Financial investments	15,367	6,481
Amounts due from banks and other financial institutions	307	(208)
Expected credit losses relating to financial guarantees and loan commitments	2,147	545
Other assets	168	34
Total expected credit losses	**64,871**	61,066

Expected credit losses of loans and advances to customers were the largest component of expected credit losses. In 2020, expected credit losses of loans and advances to customers of the Group were RMB46.882 billion, representing a year-on-year decrease of 13.52%; expected credit losses of financial investments were RMB15.367 billion, representing a year-on-year increase of 137.11%, which was mainly due to the accrued provision for impairment loss arising from back-to-balance sheet arrangement of wealth management assets according to their risk profiles based on expected credit loss model. For details of the allowances for impairment losses on loans, please refer to 3.4 "Analysis of Loan Quality" in this chapter, for details of the back-to-balance sheet arrangement of wealth management assets, please refer to "The formation and disposal of non-performing assets" in 3.9 in this chapter.

3.3 Analysis of Balance Sheet

3.3.1 Assets

As at the end of the reporting period, the total assets of the Group amounted to RMB8,361.448 billion, up by 12.73% from the end of the previous year, which was mainly attributable to the increase in loans and advances to customers and bond investments of the Group.

To maintain the figures comparable, the financial instruments in section "3.3.1 Assets" were still analysed on the statistical calibre excluding interest receivable, except for the table "components of the total assets of the Group", in which interest receivable calculated using the effective interest method was included as required by the Ministry of Finance.

The following table sets forth, as at the dates indicated, the components of the total assets of the Group.

	31 December 2020		31 December 2019	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Total loans and advances to customers	5,038,883	60.26	4,500,199	60.67
Allowances for impairment losses on loans [1]	(234,522)	(2.80)	(222,899)	(3.00)
Net loans and advances to customers	4,804,361	57.46	4,277,300	57.67
Investment securities and other financial assets	2,130,889	25.48	1,839,440	24.80
Cash, precious metals and balances with the central bank	546,416	6.53	571,990	7.71
Inter-bank transactions [2]	616,516	7.37	522,507	7.04
Goodwill	9,954	0.12	9,954	0.13
Other assets[3]	253,312	3.04	196,049	2.65
Total assets	8,361,448	100.00	7,417,240	100.00

Notes:

(1) The "allowances for impairment losses on loans" as at the end of the reporting period include the allowances for impairment losses of the principal and interest of the loans and advances to customers measured at amortised cost. The allowances for impairment losses of RMB238 million were not deducted from the carrying values of the loans and advances to customers measured at fair value through other comprehensive income. For details, please refer to Note 22(a) to the financial statements.

(2) Including balances and placements with banks and other financial institutions and amounts held under resale agreements.

(3) Including fixed assets, right-of-use assets, intangible assets, investment properties, deferred tax assets and other assets.

3.3.1.1 Loans and advances to customers

As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB5,029.128 billion, representing an increase of 11.99% as compared with the end of the previous year; total loans and advances to customers accounted for 60.15% of the total assets, representing a decrease of 0.39 percentage point as compared with the end of the previous year. For details of the loans and advances to customers of the Group, please refer to 3.4 "Analysis of Loan Quality" in this chapter.

3.3.1.2 Investment securities and other financial assets

The Group's investment securities and other financial assets consist of listed and unlisted financial instruments denominated in RMB and foreign currencies.

The following table sets forth the components of investment securities and other financial assets of the Group by line items.

	31 December 2020		31 December 2019	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Derivative financial assets	47,272	2.24	24,219	1.33
Financial investments at fair value through profit or loss	495,723	23.50	398,276	21.89
– Bond investments	177,820	8.43	123,256	6.77
– Non-standardised credit asset investments	175,303	8.31	199,817	10.98
– Others (note)	142,600	6.76	75,203	4.14
Financial investments at amortised cost	1,034,269	49.02	907,472	49.88
– Bond investments	911,409	43.20	778,170	42.77
– Non-standardised credit asset investments	148,386	7.03	142,733	7.84
– Others	592	0.03	564	0.04
– Less: allowances for impairment losses	(26,118)	(1.24)	(13,995)	(0.77)
Debt investments at fair value through other comprehensive income	510,307	24.19	472,586	25.97
Equity investments designated at fair value through other comprehensive income	7,139	0.34	6,077	0.33
Investments in joint ventures and associates	14,922	0.71	10,784	0.60
Total investment securities and other financial assets	2,109,632	100.00	1,819,414	100.00

Note: Including equity investments, investments in funds, wealth management products, long position in precious metal contracts and others.

Derivative financial instruments

As at the end of the reporting period, the major categories and amount of derivative financial instruments held by the Group are indicated in the following table. For details, please refer to Note 60(f) to the financial statements.

	31 December 2020			31 December 2019		
		Fair value			Fair value	
(in millions of RMB)	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Interest rate derivatives	3,303,805	12,568	(12,389)	4,656,569	10,990	(10,724)
Currency derivatives	1,266,675	33,166	(36,221)	1,135,734	12,479	(11,756)
Other derivatives	145,190	1,538	(1,451)	130,219	750	(720)
Total	4,715,670	47,272	(50,061)	5,922,522	24,219	(23,200)

The above table shows the notional value and fair value of the Group's derivatives by their remaining maturity on each balance sheet date. The notional value refers only to the volume of the transactions that have not yet been due or completed on the balance sheet date, and does not represent the value at risk.

During the reporting period, fluctuation in the interest rate market intensified. The Group modestly controlled the scale of proprietary trading for interest rate derivatives, the notional amount declined but the valuation still increased significantly. Meanwhile, fluctuation also brought trading opportunities with customers for interest rate derivatives. In addition, RMB exchange rate showed a trend of appreciation, the hedging needs of customers holding assets denominated in foreign currencies increased, and the upward trend of the gold market promoted the demand for alternative allocation of customers. The Group continued to leverage on its professional advantages in derivative transactions in the financial market, responded to the policy of facilitation of cross-border trade and investment, strengthened the development of online hedging transaction channels and products, actively provided customers with customised trading solutions, and comprehensively used derivative instruments to hedge market risks, the number of customers served and transaction volume both increased rapidly.

Financial investments at fair value through profit or loss

As at the end of the reporting period, the balance of the financial investments at fair value through profit or loss amounted to RMB495.723 billion, with bond, fund and non-standardised bills asset investments etc. being the major categories. The investments of which were made by the Group through an analysis of the fundamental aspects of both macro economic and monetary policy so as to obtain investment income by capturing trading opportunities in the market. For details, please refer to Note 23(a) to the financial statements.

Financial investments measured at amortised cost

As at the end of the reporting period, the balance of the Group's financial investments measured at amortised cost amounted to RMB1,034.269 billion. Among them, the bond investments were made mainly in the bonds issued by the PRC government and policy banks. This category of investments was held on a long-term basis for the strategic allocation of assets and liabilities of the Group, based on the requirements of interest rate risk management of bank accounts and liquidity management, while taking into account the returns and risks. For details, please refer to Note 23(b) to the financial statements.

Debt investments at fair value through other comprehensive income

As at the end of the reporting period, the balance of debt investments at fair value through other comprehensive income amounted to RMB510.307 billion, with interest rate bonds such as treasury bonds, local bonds, and policy bank bonds and medium-to-high rating quality credit bonds being the major categories. This category of investments was made by the Group through an analysis of the bond market, so as to obtain investment income by capturing investment and allocation opportunities in the market. For details, please refer to Note 23(c) to the financial statements.

Equity investments designated at fair value through other comprehensive income

As at the end of the reporting period, the balance of equity investments designated at fair value through other comprehensive income of the Group amounted to RMB7.139 billion. Such investments were mainly non-trading equity investments held by the Group in the investees over whom the Group had no control, joint control or significant influence. For details, please refer to Note 23(d) to the financial statements.

The composition of the Group's total bond investments classified by the issuing entities

(in millions of RMB)	**31 December 2020**	31 December 2019
Official authorities	**943,029**	783,189
Policy banks	**347,814**	316,241
Commercial banks and other financial institutions	**167,553**	162,341
Others	**141,140**	112,241
Total Bond investments	**1,599,536**	1,374,012

Note: "Official authorities" include the Ministry of Finance of the PRC, local governments and the Central Bank, etc.; "Others" mainly refer to enterprises.

Investments in joint ventures and associates

As at the end of the reporting period, the investments in joint ventures and associates of the Group amounted to RMB14.922 billion, representing an increase of 38.37% as compared with the end of the previous year, which was mainly attributable to the increase in profitability of CIGNA & CMB Life Insurance and MUCFC, being joint ventures of the Company, coupled with the increase in investment in associates. As at the end of the reporting period, the balance of allowances for impairment losses on investments in joint ventures and associates of the Group was zero. For details, please refer to Notes 25 and 26 to the financial statements.

3.3.1.3 Goodwill

In compliance with the PRC enterprise accounting principles, at the end of the reporting period, the Group conducted an impairment test on the goodwill arising from the acquisition of CMB Wing Lung Bank, China Merchants Fund and other companies and determined that provision for impairment was not necessary for the reporting period. As at the end of the reporting period, the Group had a balance of allowances for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.954 billion.

3.3.2 Liabilities

As at the end of the reporting period, the total liabilities of the Group amounted to RMB7,631.094 billion, representing an increase of 12.23% as compared with the end of the previous year, which was primarily attributable to the rapid growth in deposits from customers.

To maintain the figures comparable, the financial instruments in section "3.3.2 Liabilities" were still analysed on the statistical calibre excluding interest payable, except for the table "components of the total liabilities of the Group" in which interest payable calculated using the effective interest method was included as required by the Ministry of Finance.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Group.

	31 December 2020		31 December 2019	
(in millions of RMB, except for percentages)	**Amount**	**Percentage of the total (%)**	Amount	Percentage of the total (%)
Deposits from customers	**5,664,135**	**74.22**	4,874,981	71.70
Inter-bank transactions [1]	**1,009,846**	**13.23**	784,735	11.54
Borrowings from the central bank	**331,622**	**4.35**	359,175	5.28
Financial liabilities at fair value through profit or loss and derivative financial liabilities	**110,412**	**1.45**	66,634	0.98
Debt securities issued	**346,141**	**4.54**	578,191	8.50
Others [2]	**168,938**	**2.21**	135,817	2.00
Total liabilities	**7,631,094**	**100.00**	6,799,533	100.00

Notes:

(1) Including deposits and placements from banks and other financial institutions and amounts sold under repurchase agreements.

(2) Including salaries and welfare payable, taxes payable, contract liabilities, lease liabilities, expected liabilities, deferred income tax liabilities and other liabilities.

Deposits from customers

As at the end of the reporting period, total deposits from customers of the Group amounted to RMB5,628.336 billion, representing an increase of 16.18% as compared with the end of the previous year. Deposits from customers, accounting for 73.76% of the total liabilities of the Group, were the major funding source of the Group.

The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	31 December 2020		31 December 2019	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	2,306,134	40.98	1,692,068	34.93
Time	1,289,556	22.91	1,346,033	27.79
Subtotal	3,595,690	63.89	3,038,101	62.72
Deposits from retail customers				
Demand	1,400,520	24.88	1,171,221	24.18
Time	632,126	11.23	635,100	13.10
Subtotal	2,032,646	36.11	1,806,321	37.28
Total deposits from customers	5,628,336	100.00	4,844,422	100.00

In 2020, the percentage of daily average balance of the demand deposits to that of the total deposits from customers of the Group was 60.00%, representing an increase of 2.01 percentage points as compared with the previous year. Among which, the daily average balance of corporate demand deposits accounted for 56.76% of that of the corporate deposits, representing an increase of 2.66 percentage points as compared with the previous year; and the daily average balance of retail demand deposits accounted for 65.85% of that of the retail deposits, representing an increase of 0.93 percentage point as compared with the previous year.

3.3.3 Shareholders' equity

As at the end of the reporting period, the equity attributable to shareholders of the Bank of the Group was RMB723.750 billion, representing an increase of 18.40% as compared with the end of the previous year, among which retained profits amounted to RMB370.265 billion, representing an increase of 15.13% as compared with the end of the previous year; exchange reserve amounted to RMB-693 million, representing a decrease of RMB2.254 billion as compared with the end of the previous year, mainly due to the fluctuations in RMB exchange rate; investment revaluation reserve amounted to RMB8.207 billion, representing a decrease of RMB712 million as compared with the end of the previous year, mainly due to the disposal of financial assets at fair value through other comprehensive income which caused the carrying gains transferred out from other comprehensive income.

3.4 Analysis of Loan Quality

3.4.1 Distribution of loans by 5-tier loan classification

The following table sets forth the 5-tier loan classification of the Group as at the dates indicated.

(in millions of RMB, except for percentages)	31 December 2020 Amount	31 December 2020 Percentage of the total (%)	31 December 2019 Amount	31 December 2019 Percentage of the total (%)
Normal	4,934,797	98.12	4,385,785	97.67
Special mention	40,716	0.81	52,590	1.17
Substandard	14,760	0.29	15,747	0.35
Doubtful	22,000	0.44	17,383	0.39
Loss	16,855	0.34	19,145	0.42
Total loans and advances to customers	5,029,128	100.00	4,490,650	100.00
Non-performing loans	53,615	1.07	52,275	1.16

Note: Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans.

During the reporting period, the Group insisted on management strategy of strict asset classification to fully expose risks. As at the end of the reporting period, the Group's balance of non-performing loans increased, the non-performing loan ratio decreased, and both the balance and percentage of special-mention loans recorded a decrease. Specifically, the balance of our non-performing loans amounted to RMB53.615 billion, representing an increase of RMB1.340 billion as compared with the end of the previous year, with a non-performing loan ratio of 1.07%, a decrease of 0.09 percentage point as compared with the end of the previous year. The balance of the special-mention loans amounted to RMB40.716 billion, representing a decrease of RMB11.874 billion as compared with the end of the previous year; the percentage of special-mention loans was 0.81%, representing a decrease of 0.36 percentage point as compared with the end of the previous year.

3.4.2 Distribution of loans and non-performing loans by product type

(in millions of RMB, except for percentages)	31 December 2020 Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)[1]	31 December 2019 Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)[1]
Corporate loans	2,017,232	40.11	31,858	1.58	1,901,994	42.35	35,070	1.84
Working capital loans	744,220	14.80	22,333	3.00	854,121	19.02	24,925	2.92
Fixed asset loans	702,892	13.98	5,412	0.77	559,580	12.46	4,491	0.80
Trade finance	212,786	4.23	1,010	0.47	192,750	4.29	819	0.42
Others [2]	357,334	7.10	3,103	0.87	295,543	6.58	4,835	1.64
Discounted bills [3]	330,736	6.58	–	–	226,040	5.04	19	0.01
Retail loans	2,681,160	53.31	21,757	0.81	2,362,616	52.61	17,186	0.73
Micro-finance loans	475,728	9.46	3,026	0.64	405,780	9.04	3,284	0.81
Residential mortgage loans	1,274,815	25.35	3,759	0.29	1,108,148	24.68	2,749	0.25
Credit card loans	746,687	14.85	12,424	1.66	671,099	14.94	9,033	1.35
Others [4]	183,930	3.65	2,548	1.39	177,589	3.95	2,120	1.19
Total loans and advances to customers	5,029,128	100.00	53,615	1.07	4,490,650	100.00	52,275	1.16

Notes:

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of other corporate loans such as financial leasing, M&A loans and corporate mortgage loans.

(3) The Company will transfer discounted bills to corporate loans for accounting purposes once overdue.

(4) Consists primarily of general consumer loans, commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

With regard to retail loans, the Group strived to ensure the credit services for small- and micro-sized enterprises and individuals, increased micro-finance loans, and supported the resumption of work and production of small- and micro-sized enterprises; strictly implemented the real estate control policies by governments at all levels in support of residents' reasonable needs for their own homes; and carefully selected quality customers and strictly controlled the usage of consumer loans to reasonably develop the consumer loan business. During the reporting period, retail loans were significantly affected by the pandemic. Except for micro-finance loans, non-performing loans of other types of retail finance all increased. As at the end of the reporting period, the proportion of retail loans was 53.31%, representing an increase of 0.70 percentage point as compared with the end of the previous year; the balance of non-performing loans amounted to RMB21.757 billion, up by RMB4.571 billion as compared with the end of the previous year; and the non-performing loan ratio was 0.81%, up by 0.08 percentage point as compared with the end of the previous year. Among which, the non-performing credit card loans amounted to RMB12.424 billion, up by RMB3.391 billion as compared with the end of the previous year; and the non-performing ratio of credit card loans was 1.66%, up by 0.31 percentage point as compared with the end of the previous year.

With regard to corporate loans, the Group steadily advanced the development of project financing business, resulting in an increase in the proportion of fixed asset loans. Meanwhile, the quality of corporate loan assets remained relatively stable due to the Group's long-term adherence to customer structure adjustment. As at the end of the reporting period, the percentage of corporate loans was 40.11%, representing a decrease of 2.24 percentage points as compared with the end of the previous year. The non-performing corporate loans amounted to RMB31.858 billion, down by RMB3.212 billion as compared with the end of the previous year; and the non-performing ratio of corporate loans was 1.58%, down by 0.26 percentage point as compared with the end of the previous year.

3.4.3 Distribution of loans and non-performing loans by industry

	31 December 2020				31 December 2019			
(in millions of RMB, except for percentages)	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)[1]	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)[1]
Corporate loans	2,017,232	40.11	31,858	1.58	1,901,994	42.35	35,070	1.84
Transportation, storage and postal services	412,424	8.20	3,489	0.85	337,209	7.51	2,475	0.73
Property development	390,792	7.77	1,190	0.30	368,377	8.20	1,636	0.44
Manufacturing	283,135	5.63	10,057	3.55	261,711	5.83	15,943	6.09
Production and supply of electric power, heat, gas and water	170,413	3.39	842	0.49	150,083	3.34	519	0.35
Leasing and commercial services	155,028	3.08	6,227	4.02	173,369	3.86	3,612	2.08
Wholesale and retail	149,775	2.98	6,361	4.25	162,857	3.63	5,202	3.19
Finance	114,294	2.27	239	0.21	126,706	2.82	229	0.18
Construction	103,619	2.06	890	0.86	97,475	2.17	1,270	1.30
Information transmission, software and IT service	64,135	1.28	824	1.28	55,900	1.24	1,034	1.85
Water conservancy, environment and public utilities	55,294	1.10	145	0.26	58,263	1.30	270	0.46
Mining	40,676	0.81	783	1.92	39,189	0.87	2,084	5.32
Others[2]	77,647	1.54	811	1.04	70,855	1.58	796	1.12
Discounted bills	330,736	6.58	–	–	226,040	5.04	19	0.01
Retail loans	2,681,160	53.31	21,757	0.81	2,362,616	52.61	17,186	0.73
Total loans and advances to customers	5,029,128	100.00	53,615	1.07	4,490,650	100.00	52,275	1.16

Notes:

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of agriculture, forestry, animal husbandry, fishery, accommodation and catering, health and social work, etc.

In 2020, the Group closely followed the macroeconomic and financial situations, resolutely implemented national policy requirements, firmly supported the development of the real economy, focused on credit grants for strategic emerging industries and advanced manufacturing, actively supported new economic forms and modern service industries with innovation-driven consumption upgrades and green environmental protection as the core, as well as major construction projects that make up for the shortcomings by infrastructure, and dynamically adjusted risk prevention and control strategies in key areas such as real estate industry, local government financing platforms, and industries that we have reduced or withdrawn from, so as to continuously optimise the allocation of risk asset portfolios. During the reporting period, due to the slowdown in economic growth, industrial structural adjustment and the impact of the pandemic, some industries faced greater operating pressures, and credit risks were exposed. The non-performing loan ratio of leasing and commercial services, wholesale and retail, transportation, storage and postal services all showed an increase.

3.4.4 Distribution of loans and non-performing loans by region

(in millions of RMB, except for percentages)	31 December 2020				31 December 2019			
	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)[1]	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)[1]
Head Office[2]	858,197	17.06	17,325	2.02	740,664	16.49	11,209	1.51
Yangtze River Delta	1,037,683	20.63	7,634	0.74	903,754	20.13	8,574	0.95
Bohai Rim	633,008	12.59	6,942	1.10	567,997	12.65	7,092	1.25
Pearl River Delta and West Side of Taiwan Strait	882,726	17.56	6,555	0.74	773,445	17.22	7,093	0.92
North-eastern China	166,632	3.31	3,772	2.26	151,587	3.38	5,146	3.39
Central China	510,537	10.15	4,247	0.83	453,128	10.09	3,739	0.83
Western China	512,103	10.18	4,640	0.91	446,520	9.94	7,321	1.64
Overseas	129,020	2.57	342	0.27	139,341	3.10	276	0.20
Subsidiaries	299,222	5.95	2,158	0.72	314,214	7.00	1,825	0.58
Total loans and advances to customers	5,029,128	100.00	53,615	1.07	4,490,650	100.00	52,275	1.16

Notes:

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) The Head Office includes Credit Card Center, Offshore Finance Center and Banking Department of the Head Office.

The Group closely followed regional economic strategies of the State by actively supporting the demand for credit funds in Guangdong-Hong Kong-Macau Greater Bay Area and Yangtze River Delta, and combining the characteristics of regional advantageous industries and the differences in customer base to fully explore high-quality customers in the regional economy. At the same time, the Group further strengthened the differentiated risk supervisory management by category for branches and sub-branches in different regions, so as to prevent the occurrence of regional systematic risks. As at the end of the reporting period, the percentage of the balance of loans extended to Yangtze River Delta, Pearl River Delta and West Side of Taiwan Strait, and Western China showed increases. Due to the formation of non-performing loans in certain large-sized corporate customers and the increase of non-performing credit card loans, the non-performing loan ratio of Head Office increased by 0.51 percentage point as compared with the end of the previous year; the non-performing loan ratio also increased in overseas and subsidiaries, while the non-performing loan ratio in the Central China remained the same as compared with the end of the previous year, and the non-performing loan ratio of other regions decreased as compared with the end of the previous year.

3.4.5 Distribution of loans and non-performing loans by type of guarantees

(in millions of RMB, except for percentages)	31 December 2020				31 December 2019			
	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)(note)	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%)(note)
Credit loans	1,758,502	34.97	18,725	1.06	1,535,977	34.20	13,438	0.87
Guaranteed loans	696,634	13.85	16,201	2.33	636,709	14.18	16,755	2.63
Collateralised loans	1,914,658	38.07	13,544	0.71	1,859,500	41.40	15,103	0.81
Pledged loans	328,598	6.53	5,145	1.57	232,424	5.18	6,960	2.99
Discounted bills	330,736	6.58	–	–	226,040	5.04	19	0.01
Total loans and advances to customers	5,029,128	100.00	53,615	1.07	4,490,650	100.00	52,275	1.16

Note: Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

As at the end of the reporting period, the Group's collateralised and pledged loans increased by 7.23% as compared with the end of the previous year; guaranteed loans increased by 9.41% as compared with the end of the previous year, and the credit loans increased by 14.49% as compared with the end of the previous year. The non-performing credit loan ratio increased by 0.19 percentage point as compared with the end of the previous year due to the increase of non-performing credit card loans; while the non-performing ratio of loans with other types of guarantee all decreased.

3.4.6 Loans to the top ten single borrowers

(in millions of RMB, except for percentages)

Top ten borrowers	Industry	Loan balance as at 31 December 2020	Percentage of net capital (under the Advanced Measurement Approach) (%)	Percentage of total loans advances (%)
A	Transportation, storage and postal services	25,509	3.11	0.51
B	Transportation, storage and postal services	18,000	2.19	0.36
C	Property development	15,626	1.90	0.31
D	Property development	12,317	1.50	0.24
E	Leasing and commercial services	10,818	1.32	0.22
F	Production and supply of electric power, heating power, gas and water	10,114	1.23	0.20
G	Finance	10,000	1.22	0.20
H	Finance	9,247	1.13	0.18
I	Transportation, storage and postal services	9,020	1.10	0.18
J	Transportation, storage and postal services	9,010	1.09	0.18
Total		**129,661**	**15.79**	**2.58**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB25.509 billion, representing 3.11% of the Group's net capital under the Advanced Measurement Approach. The loan balance of the top ten single borrowers totalled RMB129.661 billion, representing 15.79% of the Group's net capital under the Advanced Measurement Approach, 16.47% of the Group's net capital under the Weighted Approach, and 2.58% of the Group's total loan balance, respectively.

3.4.7 Distribution of loans by overdue term

(in millions of RMB, except for percentages)	31 December 2020		31 December 2019	
	Loan and advance balance	Percentage of total loans (%)	Loan and advance balance	Percentage of total loans (%)
Overdue within 3 months	15,584	0.31	18,899	0.42
Overdue from 3 months up to 1 year	20,112	0.40	20,288	0.45
Overdue from 1 year up to 3 years	15,473	0.31	16,657	0.37
Overdue more than 3 years	5,399	0.10	7,519	0.17
Total overdue loans	56,568	1.12	63,363	1.41
Total loans and advances to customers	5,029,128	100.00	4,490,650	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB56.568 billion, down by RMB6.795 billion from the end of the previous year and accounting for 1.12% of its total loans, representing a decrease of 0.29 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 31.97%; guaranteed loans accounted for 23.25%; credit loans accounted for 44.78% (the majority of which were overdue loans of credit cards). The Group adopted prudent classification criteria for overdue loans, and the ratio of its non-performing loans to the loans overdue for more than 90 days was 1.31.

3.4.8 Restructured loans

(in millions of RMB, except for percentages)	31 December 2020		31 December 2019	
	Loan balance	Percentage of total loans (%)	Loan balance	Percentage of total loans (%)
Restructured loans (note)	24,878	0.49	25,022	0.56
Of which: restructured loans overdue more than 90 days	15,169	0.30	19,255	0.43

Note: Represents the restructured non-performing loans.

The Group imposed strict and prudent control over loan restructuring. As at the end of the reporting period, the percentage of the Group's restructured loans to total loans was 0.49%, down by 0.07 percentage point as compared with the end of the previous year.

3.4.9 Repossessed assets and impairment allowances

As at the end of the reporting period, the balance of repossessed assets (other than financial instruments) of the Group amounted to RMB714 million. After deducting the impairment allowances of RMB102 million, the net carrying value amounted to RMB612 million. The balance of repossessed financial instruments amounted to RMB1.884 billion.

3.4.10 Changes in the allowances for impairment losses on loans

The Group adopted the new financial instrument standard to make adequate allowances for credit risk losses by using the expected credit loss model and the risk quantification parameters such as the probability of customer defaults and the loss ratio of defaults, after taking into consideration the adjustments in macro perspectiveness.

The following table sets forth the changes in the allowances for impairment losses on loans and advances of the Group.

(in millions of RMB)	2020	2019
Balance as at the end of the previous year	223,097	192,000
Charge/release for the period	46,882	54,214
Unwinding of discount on impaired loans and advances(note)	(186)	(286)
Recovery of loans and advances previously written off	8,781	9,170
Write-offs/disposal for the period	(43,734)	(32,201)
Foreign exchange rate movements	(176)	200
Balance at the end of the period	234,664	223,097

Note: Represents the amortised cost on impaired loans as a result of the increase in their present value due to the passage of time.

The Group continued to adopt a stable and prudent policy in respect of making allowances. As at the end of the reporting period, the balance of allowances for impairment losses on loans of the Group amounted to RMB234.664 billion, representing an increase of RMB11.567 billion as compared with the end of the previous year. The allowance coverage ratio was 437.68%, representing an increase of 10.90 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.67%, representing a decrease of 0.30 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of the Group under the Advanced Measurement Approach were 12.29%, 13.98% and 16.54% respectively, representing an increase of 0.34, 1.29 and 1.00 percentage point respectively as compared with the end of the previous year.

The Group

(in millions of RMB, except for percentages)	31 December 2020	31 December 2019	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Advanced Measurement Approach [(1)]			
Net core Tier 1 capital	**610,092**	550,339	10.86
Net Tier 1 capital	**694,184**	584,436	18.78
Net capital	**821,290**	715,925	14.72
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**4,298,888**	3,863,760	11.26
Of which: Credit risk weighted assets	**3,731,603**	3,347,515	11.47
Market risk weighted assets	**75,595**	66,514	13.65
Operational risk weighted assets	**491,690**	449,731	9.33
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**4,964,542**	4,606,786	7.77
Core Tier 1 capital adequacy ratio	**12.29%**	11.95%	Increased by 0.34 percentage point
Tier 1 capital adequacy ratio	**13.98%**	12.69%	Increased by 1.29 percentage points
Capital adequacy ratio	**16.54%**	15.54%	Increased by 1.00 percentage point
Information on leverage ratio [(2)]			
Adjusted balance of on- and off-balance sheet assets	**9,395,026**	8,604,521	9.19
Leverage ratio	**7.39%**	6.79%	Increased by 0.60 percentage point

Notes:

(1) The "Advanced Measurement Approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012 (same as below). In accordance with the requirements of the Advanced Measurement Approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include China Merchants Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and subbranches of China Merchants Bank. As at the end of the reporting period, the Group's subsidiaries for calculating its capital adequacy ratio included CMB Wing Lung Bank, CMB International Capital, CMB Financial Leasing, CMB Wealth Management, China Merchants Fund and CIGNA & CMB Asset Management Company Limited. During the parallel run period when the Advanced Measurement Approach for capital measurement is implemented, a commercial bank shall use the capital floor adjustment coefficients to adjust the amount of its risk-weighted assets multiplying the sum of its minimum capital required and reserve capital required, total amount of capital deductions and the allowances for excessive loan loss which can be included into capital. The capital floor adjustment coefficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third and subsequent years during the parallel run period. 2020 is the sixth year since the implementation of the parallel run period.

(2) Since 2015, the leverage ratio shall be calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" promulgated by the former CBRC on 12 February 2015. The leverage ratio of the Group was 7.26%, 6.52% and 6.88% respectively as at the end of the third quarter of 2020, the end of the first half of 2020 and the end of the first quarter of 2020.

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of the Company under the Advanced Measurement Approach were 11.81%, 13.62% and 16.29% respectively, representing an increase of 0.33, 1.39 and 1.02 percentage point respectively as compared with the end of the previous year.

The Company

(in millions of RMB, except for percentages)	31 December 2020	31 December 2019	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Advanced Measurement Approach			
Net core Tier 1 capital	**532,209**	478,083	11.32
Net Tier 1 capital	**613,444**	509,336	20.44
Net capital	**734,022**	635,977	15.42
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,848,927**	3,426,517	12.33
Of which: Credit risk weighted assets	**3,336,234**	2,960,115	12.71
Market risk weighted assets	**62,535**	51,112	22.35
Operational risk weighted assets	**450,158**	415,290	8.40
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**4,505,299**	4,163,903	8.20
Core Tier 1 capital adequacy ratio	**11.81%**	11.48%	Increased by 0.33 percentage point
Tier 1 capital adequacy ratio	**13.62%**	12.23%	Increased by 1.39 percentage points
Capital adequacy ratio	**16.29%**	15.27%	Increased by 1.02 percentage points

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of the Group under the Weighted Approach were 10.68%, 12.16% and 13.79% respectively, representing an increase of 0.04, 0.86 and 0.77 percentage point respectively as compared with the end of the previous year.

The Group

(in millions of RMB, except for percentages)	31 December 2020	31 December 2019	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Weighted Approach(note)			
Net core Tier 1 capital	**610,092**	550,339	10.86
Net Tier 1 capital	**694,184**	584,436	18.78
Net capital	**787,438**	673,366	16.94
Risk-weighted assets	**5,710,544**	5,170,500	10.44
Core Tier 1 capital adequacy ratio	**10.68%**	10.64%	Increased by 0.04 percentage point
Tier 1 capital adequacy ratio	**12.16%**	11.30%	Increased by 0.86 percentage point
Capital adequacy ratio	**13.79%**	13.02%	Increased by 0.77 percentage point

Note: The "Weighted Approach" refers to the Weighted Approach for credit risk, the Standardised Measurement Approach for market risk and the Basic Indicator Approach for operational risk in accordance with the relevant provisions of the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012. Same as below.

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of the Company under the Weighted Approach were 10.12%, 11.67% and 13.31% respectively, representing an increase of 0.03, 0.92 and 0.78 percentage point respectively as compared with the end of the previous year.

The Company

(in millions of RMB, except for percentages)	31 December 2020	31 December 2019	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Weighted Approach			
Net core Tier 1 capital	**532,209**	478,083	11.32
Net Tier 1 capital	**613,444**	509,336	20.44
Net capital	**700,171**	593,418	17.99
Risk-weighted assets	**5,258,694**	4,737,827	10.99
Core Tier 1 capital adequacy ratio	**10.12%**	10.09%	Increased by 0.03 percentage point
Tier 1 capital adequacy ratio	**11.67%**	10.75%	Increased by 0.92 percentage point
Capital adequacy ratio	**13.31%**	12.53%	Increased by 0.78 percentage point

Balance of credit risk exposures

During the reporting period, the credit risk of the Company under the internal ratings-based approach (IRB approach) was classified into six types of risk exposures: sovereign, financial institution, corporate, retail, shareholding and others. The balances of various risk exposures are as follows:

(in millions of RMB)	Type of risk exposure	Legal person	Group
Portion covered by the IRB approach	Financial institution	1,386,214	1,386,214
	Corporate	1,981,681	1,981,681
	Retail	3,429,118	3,429,118
	Of which: Residential mortgage exposures	1,267,771	1,267,771
	Qualified revolving retail	1,642,719	1,642,719
	Other retail	518,628	518,628
Portion not covered by the IRB approach	On-balance sheet	2,727,420	3,147,635
	Off-balance sheet	159,905	170,108
	Counterparty	20,624	22,685

Measurement of market risk capital

The Group uses mixed approaches to calculate its market risk capital requirement. Specifically, it uses the Internal Model-based Approach to calculate the general market risk capital requirement of the Company (excluding overseas branches), and uses the Standardised Measurement Approach to calculate the general market risk capital requirement of overseas branches and affiliated companies of the Company as well as the specific market risk capital requirement of the Company and its affiliated companies. As at the end of the reporting period, the market risk-weighted assets of the Group were RMB75.595 billion, and market risk capital requirement was RMB6.048 billion, of which the general market risk capital requirement calculated under the Internal Model-based Approach was RMB3.773 billion, and the market risk capital requirement calculated under the Standardised Measurement Approach was RMB2.275 billion.

The Group's market risk capital requirement under the Internal Model-based Approach was calculated using the market risk value based on 250 days of historical market data, a confidence coefficient of 99% and a holding period of 10 days. The following table sets forth the market risk value indicators of the Group as at the end of the reporting period:

No. (in millions of RMB)	Item	Distressed risk value during the reporting period	General risk value during the reporting period
1	Average value	578	361
2	Maximum value	785	585
3	Minimum value	364	140
4	Value at the end of the period	474	515

3.6 Results of Operating Segments

The principal business segments of the Group include retail finance and wholesale finance. The following table summarises the operating results of each business segment of the Group for the periods indicated.

	2020		2019	
Items (in millions of RMB)	Profit before tax	Net operating income	Profit before tax	Net operating income
Retail finance	63,834	156,288	66,417	144,716
Wholesale finance	55,437	122,029	46,431	111,832
Other businesses	3,169	11,962	4,284	13,240
Total	122,440	290,279	117,132	269,788

During the reporting period, the profit before tax of retail finance of the Group amounted to RMB63.834 billion, down by 3.89% year-on-year, accounting for 52.13% of the profit before tax of the Group, representing a year-on-year decrease of 4.57 percentage points; the net operating income amounted to RMB156.288 billion, up by 8.00% year-on-year, accounting for 53.84% of the net operating income of the Group, representing a year-on-year increase of 0.20 percentage point. The net operating income of retail finance grew while the profit before tax declined, mainly because more provision for expected credit losses in retail finance was made during this period. During the reporting period, the cost-to-income ratio of retail finance was 34.65%, representing a year-on-year increase of 0.91 percentage point.

For details of the Group's business and geographical segments, please refer to Note 56 to the financial statements.

3.7 Other Financial Disclosures under the Regulatory Requirements

3.7.1 Balance of off-balance sheet items that may have a material effect on the financial position and operating results and the related information

The Group's off-balance sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, pending litigations and disputes and other contingent liabilities. Among which, the credit commitment is the primary component. As at the end of the reporting period, the balance of credit commitments of the Group was RMB2,046.374 billion. For details of the contingent liabilities and commitments, please refer to Note 58 to the financial statements.

3.7.2 Outstanding overdue debts

As at the end of the reporting period, the Group did not have any outstanding overdue debts.

3.8 Implementation of Business Development Strategies

During the reporting period, the Company unswervingly promoted the strategic transformation of "Light-model Bank" and adhered to the strategic positioning of "One Body with Two Wings". Focusing on the main theme of "customers and technologies" and taking "openness and integration" as methodologies, the Company pulled in full gear to build the Company into a Digital Bank, deepened organisational and cultural reforms and actively explored the business model of commercial banks for development stage 3.0.

1. Enhance and improve the retail service systems for "all products, all channels and all customers" under the guidance of the "North Star Metric" MAU

Retail finance was aimed to offer the best customer experience and guided by the "North Star Metric" MAU (monthly active users). The Company deeply practiced the "openness and integration" methodologies, accelerated the digital transformation of retail finance, and continuously enhanced and improved the retail service systems for "all products, all channels and all customers", so as to provide customers with high-quality financial and pan-financial services.

The first is to use CMB APP and CMB Life APP as the platforms to continuously explore and build the digital customer acquisition model and create new growth drivers in customer acquisition, while continuously improving the chainlike conversion efficiency of turning new customers into high-net-worth ones. As at the end of the reporting period, the aggregate number of CMB APP users increased by 27.19% to 145 million, with the percentage of debit card customers acquired through digital channel reaching 19.98%; and the aggregate number of CMB Life APP users increased by 20.16% to 110 million, with the percentage of credit card customers acquired through digital channel reaching 62.82%.

The second is to continue to iteratively optimise the digital operation system and improve service level. By breaking away from traditional card-based business model, the Company launched a new "user growth system" from the perspective of APP, and introduced various financial and pan-financial rights that meet the actual needs of customers. The Company opened up the wealth management, credit extension and credit card systems as well as the online and offline channels to merge into a stronger force and jointly serve customers, so that customers can enjoy more comprehensive services provided by the Company in the "outlet + APP + scenario ecology". The Company built core scenarios and multi-dimensional ecology to improve user stickiness. During the reporting period, CMB APP and CMB Life APP had an aggregate MAU of 107 million. In 23 scenarios, the MAU exceeds 10 million, among which the two major scenarios of "Meal Coupons" and "Movie Tickets" had a transaction volume of nearly RMB10 billion. The Company strengthened online interaction with customers and improved the efficiency of financial services. During the reporting period, there were 1,745 live broadcasts in the two major APPs, serving more than 11.70 million customers. As at the end of the reporting period, 44 branches launched the City Zones (城市專區). 1,595 outlets launched online stores. During the reporting period, the number of wealth management customers using CMB APP reached 10,330,400, up by 35.55% year-on-year, and accounted for 94.84% of the Bank's total number of wealth management customers. The wealth management transactions via CMB APP amounted to RMB10.09 trillion, up by 28.21% year-on-year, and accounted for 79.24% of the Bank's wealth management transactions.

The third is to actively explore hierarchical and classified customer operation, diligently create value for customers and continuously improve customer service experience. The Company strengthened its customer insights and launched the differentiated marketing system for subdivided customers at different stages of life to better meet the actual needs of customers. At the same time, from customers' standpoint, the Company unwaveringly adhered to the AUM business philosophy, took a more open and proactive attitude to introduce high-quality products from the whole market, and strove to become its customers' most preferable bank for payment, settlement and wealth management, so as to continuously increase the Company's share in the financial services used by its customers. The "Wind Chime System", being the retail customer experience monitoring system, has connected with 27 internal systems and monitored 1,367 customer experience indicators, thereby enabling the Company to proactively manage customer experience and promote continuous upgrading of customer service experience.

2. Put a close eye on account flow and capital flow to build a wholesale business ecosystem in respect of core customers

By taking core customers as the logical starting point for business development of wholesale finance, the Company built a business model for mutual promotion and positive circulation between core customers and upstream and downstream supply chain customers.

The first is to aggressively explore the "integrated investment banking and commercial banking" operation, and maintain customer loyalty through commercial banking services while fostering customer relationships with investment banking. As of the end of the reporting period, the Company completed 31 state-owned enterprise mixed ownership reform projects; the coverage ratio of the Cross-bank Solution for Corporate Treasury Management (CBS) reached 54.81% and 24.46% for strategic customers at the Head Office and branches, respectively, up by 9.81 and 6.06 percentage points, respectively; and the number of the Head Office's strategic customers using the Company's core transaction banking products increased to 4.70.

The second is to extend towards customer ecosystems along the capital chain based on deepened management and operation of core customers. By greatly improving the business processing experience, key financial services including payment agency, commercial paper guarantee and discounting and letters of guarantee spurred on the acquisition of a large number of customers in the upstream and downstream supply chains, and also led to a restorative growth in the number of small corporate loanholders. The quality of wholesale customers improved obviously. As of the end of the reporting period, the number of corporate customers with a daily average deposit of more than RMB500,000 reached 199,400, representing an increase of 28,500 or 16.68% as compared with the end of the previous year. At the same time, the Company actively seized the opportunity of special debts. During the reporting period, the special debt projects for which we offered financial services amounted to RMB1.30 trillion and retained deposits of RMB638.873 billion via capital for bond issuance. The daily average balance of RMB deposits from institutional customers was RMB914.356 billion. As of the end of the reporting period, the Company cooperated with 25 domestic government agencies in respect of the smart AI customer services, serving an aggregate of 200,000 persons.

The third is to constantly improve the corporate customer experience, and promote the online business from the users' perspective. As of the end of the reporting period, the corporate customer experience monitoring system docked with 28 internal systems in the Bank, monitoring 954 customer experience indicators. As of the end of the reporting period, the self-service rate of newly accessing online corporate banking service increased from 72.23% to 91.05%. The "Instant Issuance of Letter of Guarantee (保函閃電開)" was widely used by customers soon after its launch. The form-filling workload for business account opening was greatly reduced from 78 to 3 items, and only one visit to the Bank is required. The Company was ahead of its peers to obtain the qualification for blockchain invoicing. During the reporting period, the number of blockchain invoices issued by the Company was 1.33 million; our invoice cloud project was the first of its kind in the industry to realise online self-service invoicing for proprietary businesses, with a value-added tax e-invoicing ratio of 79.79%, and the number of invoices verified by the invoice cloud and that of reimbursement invoices were 3.90 million and 1.42 million, respectively.

3. Unswervingly build the Company into a Digital Bank

The bottom layer of digital business operation is the continuous enhancement of Fintech capabilities. The Company continued to increase the investments in scientific and technological resources. During the reporting period, the investment in information technology amounted to RMB11.912 billion, up by 27.25% year-on-year, and accounted for 4.45% of the Company's net operating income, up by 0.73 percentage point year-on-year. Information technology investment focused mainly on system operation, electronic equipment and software procurement, information technology human resource allocation, information technology consulting and infrastructure construction. As of the end of the reporting period, the Bank confirmed 2,106 Fintech innovation projects, of which 1,374 projects were launched online, covering retail, wholesale, risk and other fields.

With the deepening of digital transformation, the Bank's management capabilities and efficiency have improved gradually. The Company continued to optimise the customer relationship management system for retail finance, namely the W+ platform, offering instant professional advice, launching intelligent auxiliary sales functions, and supporting customer service online. Customer data analysis products such as Zhitu (智圖), Zhiwang (智網), Zhice (智策), Xianji (先機) and Shenbi (神筆) demonstrate that our branches have improved their accurate marketing capabilities and fully applied AI, voice recognition and other technologies to serve customers. The wholesale business line took the customer relationship management system (CRM 4.0) as the carrier, and used scenarios to connect the five major functions of customer information, information cases, business processing, marketing support and team building to empower branches. The online contract signing covered 77 wholesale businesses, greatly reducing the signing time. Robotic Process Automation (RPA), Optical Character Recognition (OCR), Natural Language Processing (NLP) and other financial technologies were applied to 49 middle- and back-office scenarios such as verification, entry and consulting, and the number of replaced businesses reached 27.23 million. The Company integrated multiple modules for risk management from the perspective of users and consolidated and made accessible the underlying system data, to realise one-click inquiry of customer basic information, risk information and relationship map information, and automatically generate risk reports and pre-credit reports. During the reporting period, the intelligent risk control platform named "Libra" lowered the percentage of non-cardholders' counterfeited and embezzled amounts to three in ten millionths; the corporate intelligent early-warning system had an early-warning accuracy rate of 75.21% for potentially risky corporate customers. As it could issue an early-warning signal averagely 20 months before a customer became financially risky, the coverage rate of newly risky customers reached 86.75%. Digital operation has started to bear fruits. During the reporting period, the average daily settlement time of outlets was 50 minutes earlier year-on-year. At the same time, the customer satisfaction with counter businesses continued to improve for three consecutive years. Online collaborative officing capabilities improved significantly, and online meetings and training have become normal with wider coverage and higher efficiency, thus saving a considerable amount of time and cost.

The Company fully initiated the transformation of technology infrastructure from IT to DT, actively promoted host cloud and application cloud, and continuously improved the three major AI cloud services of customer service cloud, public opinion cloud and visual cloud. During the reporting period, the customer service cloud saved a workforce of over 4,000 persons, the early-warning timeliness of the public opinion cloud improved from 1 day to 1 hour, and the visual cloud was used 92 million times throughout the year. Significant breakthroughs were made in the connection of systems and data, and 90 improvement projects were completed to solve 18 fundamental and comprehensive problems, including demand response mechanism, data sharing mechanism and unified internal user authentication. The Company unified the corporate user system to allow users to log in with a username and password to access 18 types of systems covering 200 financial services, thereby better supporting the comprehensive services, comprehensive pricing and concentrated risk management of corporate customers. The management level of the data assets of the whole Bank was improved greatly by launching a business intelligence platform that can provide visual data products for the whole Bank, and an artificial intelligence platform that allows data access personnel to conduct self-service data analysis. At the same time, the Company further purified data assets and made the use of data more convenient and efficient.

4. Continuously deepen the organisational and cultural transformation of openness and integration

The awareness and capabilities of internal coordination continued to improve. The Company broke through inter-departmental barriers, brought together vital forces to act on the market, and gradually developed an enterprise-level service capability. During the reporting period, thanks to the synergy among the Company's wealth management, asset management and investment banking, the Company achieved a record high in the amount of AUM increments and the highest growth rate over the past five years, and the amount of custody assets exceeded RMB16 trillion, with an increase of RMB2.82 trillion. The linkage between the Head Office and branches and among various business lines was realised by the Company to share resources and capabilities, jointly expand scenarios and create a platform ecology. As of the end of the reporting period, the provident fund service covered 78 cities, the social security inquiry service covered 66 cities, and the non-tax charge payment service covered 85 cities; the Bank issued 13.765 million electronic social security cards. The MAUs of public service scenarios reached 6,602,700, representing a year-on-year increase of 419.29%; the MAUs of utilities bills payment scenarios reached 4,214,600, representing a year-on-year increase of 72.37%.

The organisational culture of openness and integration has been deeply rooted in the hearts of our employees. The middle- and back-office departments actively empowered front-line ones by reducing burdens on them, some common burdens that have long plagued grassroots employees were effectively rectified, and some process weakpoints that restricted front-line employees were effectively resolved. The cross-boundary integrated task team conducted comprehensive cooperation in the construction of host cloud, data center and other projects, which has proved to be an effective organisational way to solve complicated tasks. A multiple talent exchange system within and outside the Bank, between the Head Office and branches, and across branches has been gradually taking shape, improving the cadre exchange mechanism, and strengthening the trend that employees with grassroot experience are prioritised when selecting cadres. The Company normalised small-team innovation, formed an innovation factory incubation mechanism, and encouraged employees to shake off conventional work processes and operation methods, so as to achieve the adoption of innovative ideas and team development. First-line voices were widely valued, and the "Egg Shell (蛋殼)" platform of our internal forum has increasingly become an important basis for decision-making by managers at all levels. The "Simple Work Action (清風行動)" promoted the whole Bank to insist on doing the right thing, and the light-operation culture of "openness, integration, equality and inclusiveness" has increasingly become a value concept recognised by the whole Bank.

3.9 Key Business Concerns in Operation

1. Net interest margin

In 2020, the net interest margin of the Company was 2.56%, representing a decrease of 9 basis points year-on-year, which was mainly due to the impact of cuts in the interest rates on the asset side: on the one hand, the Loan Prime Rate (LPR) was lowered many times, and at the same time the Company vigorously implemented the national policy of fee reduction and interest concession in favor of the real economy to enable the interest rate of newly issued loans to drop significantly; on the other hand, the market interest rates fell under the guidance of more flexible and moderate monetary policy, leading to obvious decline in the yields of bill financing, bond investment and financial institutions assets. Benefiting from the admirable growth in low-cost deposits and enhanced control over the amount and price of high-cost deposits such as structured deposits and large-denomination certificates of deposit, the deposit cost ratio decreased year-on-year; as market interest rates fell, the cost of active liabilities for treasuries such as financial institution deposits and interbank certificates of deposits decreased accordingly which, to a certain extent, made up for the gap caused by the decrease in the return on assets.

Looking forward to 2021, it is expected that the Company's net interest margin will remain under pressure. On the one hand, as the economic recovery is vulnerable to the sustaining pandemic, and some existing loans will be collectively re-priced in 2021 as a result of the LPR cuts in 2020, it will be difficult to improve asset pricing; on the other hand, as the monetary policy normalises, and the cost of marketised liabilities has stabilised and rebounded, coupled with the increasingly fierce competition for deposits, the cost of liabilities will generally face upward pressure.

The Company will continue to enhance its research and judgment in the macro economy and policies, reinforce the forward-looking evaluation and flexible management of assets and liabilities, constantly optimise the asset-liability structure, and strive to maintain net interest margin at a relatively good level. On the asset side, the Company will continue to optimise the industrial structure, business structure, customer structure and regional structure, so as to further strengthen the management of risk asset pricing. On the liability side, on the one hand, the Company will continue to optimise deposit structure, strengthen deposit pricing management, and further consolidate deposit cost advantages; on the other hand, the Company will flexibly arrange marketised funding sources and promote the steady growth of low-cost financial institution demand deposits.

2. Net non-interest income

During the reporting period, the Company realised net non-interest income of RMB87.979 billion, representing a year-on-year increase of 4.50%, which accounted for 32.89% of the Company's net operating income, down by 0.60 percentage point year-on-year. Due to the huge impact of the pandemic on macro economy and household consumption, both bank card business and payment and settlement business have been directly affected, and bond valuation and foreign exchange trading gains were under pressure due to the drastic fluctuations in the financial market. The growth in the Company's net non-interest income has slowed down. However, through making active responses and dynamically and flexibly adjusting relevant strategies, the Company still achieved growth in net non-interest income: first, thanks to the rapid growth of customers, the enhancement of digital operation capabilities and the loose funding environment, wealth management fee income from agency distribution of funds, agency sales of wealth management services, agency distribution of trust schemes has increased satisfactorily year-on-year; second, driven by the steady growth in custody scale and the continuous optimisation of product structure, the income from custody businesses have grown well; third, after deepening the operation and expansion of wholesale customers, income from transaction banking, customer transaction and other businesses have also grown well.

During the reporting period, the Company recorded net fee and commission income of RMB70.699 billion, representing a year-on-year increase of 7.47%. For key projects, the Company's fee and commission income from wealth management amounted to RMB28.524 billion, representing a year-on-year increase of 35.68%[2] on the same statistical calibre (of which: income from agency distribution of funds amounted to RMB9.434 billion, up by 99.45% year-on-year, which was mainly attributable to the better sales of non-monetary funds in the active capital market; income from agency sales of wealth management services amounted to RMB5.699 billion, up by 57.89% year-on-year on the same statistical calibre, which was mainly attributable to the steady increase in the scale of agency sales of wealth management services and the achievements in business transformation; income from agency distribution of trust schemes amounted to RMB7.626 billion, up by 12.58% year-on-year, which was mainly attributable to the good performance of floating-income products driven by the capital market; income from agency distribution of insurance policies amounted to RMB5.541 billion, down by 4.30% year-on-year, which was mainly due to the impact of the pandemic, which made it more difficult for banks to reach customers offline in the agency distribution of insurance policies conducted by commercial banks; income from agency distribution of precious metals amounted to RMB224 million, up by 86.67% year-on-year, which was mainly attributable to the increase in gold trading activity); income from bank card fees amounted to RMB19.474 billion, up by 0.14% year-on-year, which was mainly attributable to the impact of the pandemic, which curbed the growth in the fee income from debit card and credit card transactions; income from settlement and clearing fees amounted to RMB12.601 billion, up by 9.95% year-on-year, which was mainly driven by the increase in income from e-payment; custodian fee income amounted to RMB4.215 billion, up by 16.92% year-on-year, which was mainly attributable to the growth in the scale of custody businesses and the continuous optimisation of business structure.

Looking forward to 2021, the increase in net non-interest income will face many challenges upon the background that the M2 growth tends to decline and the risks of consumer loans will remain high. The Company will further consolidate the foundation for the development of intermediary businesses, continuously promote the transformation of business models, accelerate the optimisation and adjustment of customer structure, business structure, industrial structure and regional structure, and actively tap the potential to increase revenue. Net non-interest income is expected to maintain steady growth: the first is, by focusing on the main task to forge a "extensive wealth management system", the Company will continuously promote digital transformation, explore the transformation of profit models, shift from sales orientation to customer value orientation, provide customers with non-stop financial services, and drive the growth in assets under management (AUM) and the fee and commission income from wealth management; the second is, the Company will promote card binding and increase trading activity through various forms of transaction expansion, so as to drive the growth in the transaction volume of payment and settlement and fee income; the third is, the Company will deepen the integrated operation of wholesale customers and the transformation of "integrated investment banking and commercial banking" services, so as to become the principal bank and the first bank to approach core corporate customers, and at the same time, the Company will increase collaboration with its intra-group subsidiaries such as CMB Wealth Management, CMB International Capital and China Merchants Fund, to promote the increase in non-interest income from bond business, corporate wealth management business, custody business, transaction banking and other businesses; the fourth is to strengthen market analysis, improve trading capabilities, and achieve relatively stable and healthy increase in the income from financial market business and bill business during the fluctuating economic cycle and policy cycle.

[2] Fee and commission income from wealth management excluded RMB3.464 billion in the management fee income from the entrusted management of products of the Company recorded by CMB Wealth Management in 2020. The type of business was the Company's entrusted wealth management business in the past and was included in the income from entrusted wealth management services. Starting from this period, it will be separately reflected in the income of CMB Wealth Management, and the comparable data for the corresponding period will be adjusted accordingly.

3. Deposits from customers

As at the end of the reporting period, the Company's deposits from customers was RMB5,407.927 billion, representing an increase of RMB777.239 billion or 16.78% as compared with the end of the previous year, reached a historical record high in the increase of deposits from customers and achieved a better deposit structure. The core deposits[3] amounted to RMB4,710.519 billion, representing an increase of RMB1,027.508 billion, exceeding RMB1 trillion. The rapid growth in deposits from customers of the Company was due to, on the one hand, the rapid growth rate of M2, which has provided a favorable external environment for the growth of deposits from customers, and on the other hand, the Company constantly consolidated and strengthened its competitive advantages and made efforts to expand customer base while consistently striving to build itself as a Digital Bank and strengthening online marketing, which played an important role in acquiring new customers and absorbing additional funds from customers during the pandemic. The optimisation of the Company's structure of deposits from customers was mainly due to the strengthening of its internal management, i.e. increasing the proportion of demand deposits by restricting the scale and price of large-denomination certificates of deposit, suppressing the scale of structured deposits, and deepening customer management. As at the end of the reporting period, the balance of the Company's demand deposits was RMB3,600.652 billion, representing an increase of RMB816.123 billion as compared with the end of the previous year, and accounting for 66.58% of total deposits from customers, up by 6.45 percentage points as compared with the end of the previous year; the balance of structured deposits was RMB267.025 billion, representing a decrease of RMB248.877 billion as compared with the end of the previous year, and accounting for 4.94% of total deposits from customers, down by 6.20 percentage points as compared with the end of the previous year.

Looking forward to 2021, against the backdrop of continued recovery of the domestic economy, China's monetary and fiscal policies will continue to normalise, while the growth of M2 may not be as fast as in 2020. It is expected that the growth in deposits in the commercial banks may slow down. Meanwhile, as the competition for deposits among commercial banks will remain fierce, the Company will continue to face pressure from both growth in scale and cost control. To cope with the above challenges while maintaining high-quality growth in deposits, the Company intends to start from the following aspects: firstly, the Company will ensure the growth in volume and improvement in quality of deposits through reinforcing internal management measures, while continuing to optimise deposit structure and maintain our advantage of high demand deposit proportion; secondly, the Company will constantly expand the size of its customer base and broaden the sources of deposits; thirdly, the Company will continue to strengthen the volume and price control of high-cost deposits such as structured deposits and large-denomination certificates of deposit, and guide the cost of deposits from customers to go downward.

4. Investment of loans

In 2020, the Company recorded an overall steady growth in its loans. As at the end of the reporting period, the Company's total loans and advances to customers amounted to RMB4,730.383 billion, representing an increase of RMB553.230 billion or 13.24% as compared with the end of the previous year, among which, retail loans increased by RMB315.998 billion or 13.57% as compared with the end of the previous year. Due to the pandemic, the growth of the scale of credit card loans fell below expectation, but the growth of personal housing mortgage loans, micro-finance loans and consumer loans contributed to the steady growth of the Company's retail loans. Corporate loans maintained an overall steady growth. Credit resources directed to the strategic customers of the Head Office and branches increased by RMB134.637 billion or 8.29%; bill discounting increased by RMB102.595 billion or 45.62% as compared with the end of the previous year, mainly due to the Company's effective support to the credit demands of inclusive small- and micro-enterprise loans and high-quality manufacturing enterprises by increasing bill assets in the second half of 2020.

[3] The core deposits represent the internal management indicator in terms of the Company's deposits, and its caliber is deposits from customers excluding large-denomination certificates of deposit, structured deposits and other high-cost deposits.

In 2020, in response to the decisions and arrangements of Central Committee of the CPC and the State Council on the overall prevention and control of the pandemic and the promotion of economic and social development, the Company earnestly carried out the policy for temporary deferment of repayment of the principal and interest, helped the customers who were actually affected by the pandemic mitigate repayment pressure of the principal and interest, and relieved the temporary operating difficulties of the enterprises brought about by the pandemic in a timely manner. During the reporting period, the loans granted to the customers who applied for deferment of repayment of the principal and interest in aggregate were RMB152.572 billion. Meanwhile, the Company continued to carry out risk screening, guided certain customers with their production and operation resumed and their normal debt repayment ability recovered to gradually pay the normal amount of the principal and interest; and for those customers whose operation deteriorated substantially during the period of deferment of repayment of the principal and interest and encountered non-temporary liquidity difficulties, the Company would form corresponding plans in a timely manner. As at the end of the reporting period, the balance of loans granted to the customers who were still at deferment of repayment of the principal and interest was RMB21.909 billion. The Company will continue to strengthen its monitoring of customers who applied for the deferment of repayment of the principal and interest and keep such risks under effective control as the pandemic prevention and control efforts become normalised.

In terms of inclusive finance, as at the end of the reporting period, the number of inclusive small- and micro-sized enterprise customers of the Company were 480,100, representing an increase of 20.80% as compared with the end of the previous year; and the balance of inclusive small- and micro-enterprise loans[4] was RMB530.650 billion, representing an increase of RMB77.321 billion or 17.06% as compared with the end of the previous year. During the reporting period, the Company newly granted inclusive small- and micro-enterprise loans of RMB562.516 billion. The newly granted inclusive small- and micro-enterprise loans had an average interest rate of 4.53%, representing a year-on-year decrease of 48 basis points, which had strongly supported the development of real economy.

Looking ahead to 2021, the Company will take into account both the macroeconomic situation and its internal development needs, adhere to its development strategy known as "One Body with Two Wings" and "Light-model Bank". In terms of credit assets allocation, the Company will adhere to a prudent and sustainable approach. Specifically, retail loans are expected to continue to grow steadily as in 2020, with the growth of housing mortgage loans expected to slow down, mainly due to the Company's needs of implementation of regulatory policies and optimisation of its own credit asset structure. While maintaining the risks under control, the Company will increase its granting of micro-finance loans and consumer loans, and credit card loans are expected to maintain a stable growth based on the effective risk prevention and optimisation of customer structure. Corporate loans are expected to increase slightly faster as compared with 2020, mainly due to the expected increase in loan demand of the Company's corporate customers. Meanwhile, in terms of management strategy, the Company will continue to optimise the credit structure while constantly improving the comprehensive return on loans and increasing its support for the strategic customers of the Head Office and branches, the small-, medium- and micro-sized enterprise customers and inclusive small- and micro-enterprise loans customers.

4 Refers to the small- and micro-sized enterprise loans + private industrial and commercial business operating loans + small- and micro-sized enterprise operating loans with a single-account credit limit of RMB10 million, according to the calibre of the CBIRC, which is the full-scale RMB domestic calibre, including bill financing.

5. Impact of the centralised management system for real estate loans on the Company

In late 2020, the People's Bank of China and the CBIRC jointly issued the Notice on Establishing a Centralised Management System for Real Estate Loans of Banking Financial Institutions (Yin Fa [2020] No. 322) (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》(銀發[2020]322號)). According to the requirements of the document, the Company is categorised as a second-tier medium-sized domestic bank, and the maximum proportions of real estate loans and personal housing mortgage loans are 27.5% and 20%, respectively. The Company is committed to be the "Best Retail Bank in China", and with the rapid growth of the retail finance over the years, the Company has gradually developed a business characteristic of having a higher proportion of existing real estate loans.

Strengthening the centralised management and control of real estate loans is not only to implement the national macro requirements of prudent management, prevent potential systematic financial risks and maintain the safety of the financial system, but also an inherent need to promote the structural transformation of the Company's business and achieve a balanced development of asset structure. The Company will firmly implement the requirements of the document, implement the centralised management of real estate loans and promote the smooth transition of related businesses in accordance with the policy requirements.

The overall impact of this document on the Company is under control. While strictly implementing the requirements of the document, the Company will take this opportunity to actively lay out other high-quality assets, and strive to maintain stable asset returns by optimising the credit structure and flexibly adjusting the rhythm of asset allocation. On the one hand, in terms of the allocation of major categories of asset portfolio, the Company will increase the allocation of non-credit assets such as investment assets, bills assets and interbank assets to increase the proportion of non-credit assets. On the other hand, the Company will actively promote the development of businesses such as inclusive small- and micro-enterprise loans, high-quality manufacturing industries, as well as consumer finance, new growth engine and new economy and supply chain finance under the premise of controllable risk, and continue to optimise the internal structure of credit assets.

6. The formation and disposal of non-performing assets

During the reporting period, affected by surging credit card risks, both the formation amounts and formation ratios of the Company increased. Overall, in 2020, the Company recorded new non-performing loans formed of RMB56.143 billion, representing a year-on-year increase of RMB11.928 billion, with a formation ratio of non-performing loans of 1.26%, up by 0.13 percentage point year-on-year. In terms of business category, the formation amount of non-performing corporate loans was RMB15.081 billion, representing a decrease of RMB3.274 billion year-on-year; the formation amount of non-performing retail loans (excluding credit cards) was RMB8.621 billion, representing an increase of RMB1.369 billion year-on-year; due to the combined impact of the pandemic and "joint-debt" risk, the formation amount of new non-performing loans of credit cards was RMB32.441 billion, representing an increase of RMB13.833 billion year-on-year. From the regional perspective, the formation amounts and formation ratios of non-performing loans in the Head Office, Central China and overseas regions increased year-on-year, while those in other regions fell. From the industrial perspective, the formation amounts and formation ratios of non-performing loans in industries such as wholesale and retail, accommodation and catering, and production and supply of electric power, heating power, gas and water increased year-on-year. From the perspective of customer base, the formation amounts and formation ratios of non-performing loans to the large- and small-sized enterprises decreased year-on-year, while those to the medium-sized enterprises increased slightly as compared with the previous year.

The Company has always adhered to prudent and stable customer selection and asset allocation, spurred by its sufficient risk compensation and strong capabilities of guarding against risks. As at the end of the reporting period, the balance of allowances for impairment losses on loans of the Company amounted to RMB228.216 billion, representing an increase of RMB11.273 billion as compared with the end of the previous year. The allowance coverage ratio was 443.51%, representing an increase of 13.49 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.82%, representing a decrease of 0.37 percentage point as compared with the end of the previous year; the credit cost ratio for the reporting period was 1.03%, representing a year-on-year decrease of 0.31 percentage point.

During the reporting period, the Company continued to step up its efforts in strengthening the disposal of non-performing loans, taking various approaches to reduce and dispose of risky assets. During the reporting period, the Company disposed of non-performing loans amounting to RMB54.929 billion, of which RMB30.438 billion was written off in a normal way; RMB12.123 billion was securitised as non-performing assets; RMB10.832 billion was recovered by collection; and RMB1.536 billion was disposed of by repossession, assignment, restructuring, upward migration, remission and other means.

During the reporting period, the Company disposed of the eligible risky assets associated with its wealth management business by back-to-balance sheet arrangement including such assets under the investment financial assets in accordance with the regulatory policies such as the Optimising Transition Arrangement under New Regulation on Asset Management and Guiding the Smooth Transformation of Asset Management Business 《優化資管新規過渡期安排 引導資管業務平穩轉型》 issued by the People's Bank of China. In 2020, the Company completed the disposal of wealth management assets by back-to-balance sheet arrangement with a total principal amount of RMB12.629 billion and made asset loss provision of RMB12.126 billion based on the expected credit loss model. In the future, the Company will work with CMB Wealth Management to optimise the post-investment inspection process, establish and improve the risk stratification tracking management, and enhance the multi-dimensional and full-coverage risk inspection mechanism to continuously strengthen the post-investment risk management of wealth management assets. For the new formation of non-performing wealth management assets during the transition period, subject to compliance with regulatory policies, the Company will consider the impact on its operation and make appropriate back-to-balance sheet arrangement, while strengthening the management after the completion of back-to-balance sheet arrangement, so as to promote the orderly commencement of the collection and disposal.

Currently, the global economic environment is still complex. The pandemic and external situation still brings many uncertainties. The foundation of domestic economic recovery is not entirely solid. There are still various derivative risks as a result of the pandemic. The Company will still face challenges in managing the quality of its assets. In 2021, the Company will, on the one hand, continue to adhere to the management strategy of strict asset classification and full exposure of risks, and make efforts to reduce and eliminate various existing asset risks and prevent and control incremental asset risks; on the other hand, the Company will continue to optimise credit policies, enhance industry research and customer awareness, strengthen risk screening in key areas, efficiently dispose of non-performing assets, increase financial technology empowerment, reinforce the foundation of risk management, and strive to maintain asset quality at a relatively stable level.

7. Asset quality in key areas

The following table sets out the asset quality of the Company's loans and advances by product type as of the date indicated.

(in millions of RMB, except for percentages)	31 December 2020 Balance of Loans and advances	Balance of non-performing loans	Non-performing loans ratio (%)	Balance of special mention loans	Percentage of special mention loans (%)	Balance of overdue loans	Percentage of overdue loans (%)
Corporate loans	1,758,951	29,767	1.69	11,389	0.65	25,096	1.43
Discounted bills	327,479	–	–	459	0.14	–	–
Retail loans	2,643,953	21,690	0.82	25,710	0.97	29,562	1.12
Micro-finance loans	474,528	3,013	0.63	1,014	0.21	2,836	0.60
Residential mortgage loans	1,264,388	3,736	0.30	1,516	0.12	3,833	0.30
Credit card loans	746,559	12,421	1.66	22,554	3.02	20,059	2.69
Consumer loans	135,606	1,998	1.47	553	0.41	2,304	1.70
Others(note)	22,872	522	2.28	73	0.32	530	2.32
Total loans and advances to customers	4,730,383	51,457	1.09	37,558	0.79	54,658	1.16

(in millions of RMB, except for percentages)	31 December 2019 Balance of Loans and advances	Balance of non-performing loans	Non-performing loans ratio (%)	Balance of special mention loans	Percentage of special mention loans (%)	Balance of overdue loans	Percentage of overdue loans (%)
Corporate loans	1,624,314	33,377	2.05	21,298	1.31	33,036	2.03
Discounted bills	224,884	19	0.01	544	0.24	–	–
Retail loans	2,327,955	17,054	0.73	27,457	1.18	27,890	1.20
Micro-finance loans	405,149	3,284	0.81	1,326	0.33	3,436	0.85
Residential mortgage loans	1,098,547	2,747	0.25	1,305	0.12	3,667	0.33
Credit card loans	670,921	9,032	1.35	24,147	3.60	18,342	2.73
Consumer loans	123,691	1,461	1.18	552	0.45	1,855	1.50
Others (note)	29,647	530	1.79	127	0.43	590	1.99
Total loans and advances to customers	4,177,153	50,450	1.21	49,299	1.18	60,926	1.46

Note: Consists primarily of commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

In response to changes in external macro-economic situation, the Company proactively enhanced the risk management and control in key areas such as credit bonds investments, consumer credit business, real estate industry, local government financing platforms, the industries for which our loans should be reduced or withdrawn.

Risk management and control for credit bond investments

During the reporting period, defaults in the bond market continued to occur. In particular, the successive defaults of local state-owned enterprises with better market ratings caused greater market volatility. The Company has always maintained a high degree of risk sensitivity, strengthened the flexibility management of bond investments, and gradually established a risk management system of credit bond investments. Benefiting from the Company's adoption of risk management measures such as limit control, strict access, process optimisation, and dynamic pre-warning, this wave of credit bond defaults has a relatively small impact on the Company, and the quality of our credit bond investment assets is relatively good. As of the end of the reporting period, the Company's proprietary investment in credit bonds amounted to RMB267.645 billion, representing an increase of RMB59.653 billion as compared with the end of the previous year, and the non-performing ratio was 0.19%, which stayed flat as compared with the end of the previous year. In 2021, under the background that the social financing and external liquidity are expected to be in an overall tight-balance period due to the changing pandemic, some companies with downward operating, high leverage and concentrated debt maturity will face greater debt repayment pressure. It is expected that the default risk in the credit bond market will continue to be exposed. However, with the introduction of a series of national policies to regulate the development of the bond market and maintain the stability of the bond market, investors won't count on the "guaranteed yields" and bond market risks will be disposed in an orderly manner. It is expected that the Company's credit bond investment business risks will be generally controllable in 2021.

Risk management and control for consumer credit business

During the reporting period, the overall risk of the consumer finance industry continued to rise, and asset quality management faced greater challenges. Affected by the impact of the pandemic, the scale and proportion of the Company's consumer credit business under collection procedure increased rapidly in the first half of 2020, with a periodical increase in overdue and non-performing loans. As the resumption of work and production continued to advance in the second half 2020, the domestic economy showed a trend of resuming growth, and the Company's leading indicators of consumer credit business have gradually recovered. As of the end of the reporting period, the non-performing loan ratio of the Company's credit card loans recorded 1.66%, an increase of 0.31 percentage point from the end of the previous year, but a decrease of 0.19 percentage point from the end of the first half of 2020; the non-performing loan ratio of our personal consumer loan was 1.47%, an increase of 0.29 percentage point from the end of the previous year. Looking forward to 2021, given that there is still uncertainty about the changes in the pandemic, the employment, income and consumption of residents are still recovering, in addition to factors such as joint debts, it is expected that the risk management and control of consumer credit business will continue to face challenges. The Company will closely follow changes in the external environment, adhere to a prudent risk preference and a robust risk strategy, focus on value-based customer operations, continuously optimise customer base and asset structure, dynamically adjust and deploy risk management strategies, accelerate the disposal of non-performing assets, and strive to maintain a relative stability in asset quality of consumer credit business.

Risk management and control for real estate credit business

The Company attached great importance to the risk prevention in the real estate sector. The Company optimised its internal credit policy in a dynamic manner according to the policies on adjustments to the real estate industry, regulatory requirements and industrial developments in active response to the guidance of national policy in accordance with the overall strategy of "total volume control, prudent access, focus on regions, adjustment of structure, and strict management". As of the end of the reporting period, the risk exposure of our businesses with domestic real estate enterprises (calculated on the broad statistical calibre) amounted to RMB597.410 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standardised assets), representing an increase of RMB89.079 billion as compared with the end of the previous year. Included therein was the balance of real estate loans to domestic enterprises which amounted to RMB311.430 billion, representing an increase of RMB27.167 billion as compared with the end of the previous year, accounting for 6.58% of the total loans and advances granted by the Company, down by 0.23 percentage point as compared with the end of the previous year and were mainly granted to the quality strategic customers while putting a strict curb on the grant of any incremental loans to those customers not in the strategic customer list. As of the end of the reporting period, the assets in the domestic real estate enterprises were of good quality with a non-performing loan ratio of 0.22%, down by 0.14 percentage point as compared with the end of the previous year. In 2021, under the influence of new regulatory policies such as new financing regulations set out the "limits for three financial ratios (三道紅線)" and the management of commercial banks' real estate loan concentration, it is expected that some real estate companies with high leverage ratios, heavy interest-bearing liabilities, and a high proportion of projects in third and fourth tier cities might experience deterioration in corporate financing capacity and repayment situation, resulting in an increase in financial pressure. The Company will continue to adjust the structure of real estate customers and regional assets, focusing on central cities and strategic customers. It is expected that asset quality in the real estate sector will remain relatively stable under the condition that there are no major changes in the macro environment and industrial policies.

Risk management and control for local government financing platform business

The Company strictly implemented the State's requirements to continue strengthening local governments' debts management, while preventing and defusing the risks on local governments' implicit liabilities and further regulating the financing platforms as well as the investments and financing activities conducted by local state-owned enterprises. The Company strictly performed legal procedures, and insisted on operating in compliance with laws and regulations. As at the end of the reporting period, the balance of risk exposure of our businesses with local government financing platforms of the Company (calculated on the broad statistical calibre) amounted to RMB248.297 billion (including businesses such as actual and contingent credit, bond investments, proprietary investments and fund investments of wealth management products), representing a decrease of RMB7.911 billion as compared with the end of the previous year. Among which, the balance of loans to domestic companies amounted to RMB114.902 billion, representing an increase of RMB8.727 billion as compared with the end of the previous year, and accounted for 2.43% of the total loans and advances granted by the Company, down by 0.11 percentage point as compared with the end of the previous year. During the reporting period, due to the macroeconomic downturn and other factors, individual enterprises were exposed to risks. As at the end of the reporting period, the non-performing loan ratio of the local government financing platform business was 0.55%. In 2021, the Company will adhere to commercial principles, resolutely get rid of the mindset that the government will guarantee the fallback, carefully selected its business based on the degree of the coverage of its debts by the operating cash flow of projects and customers in accordance with the overall principle of "supporting preferential clients in selective areas in compliance with regulatory requirements and through quota management, emphasising self-compensation and through city-specific policies". Besides, for the general bond financing of local government, the Company will select the regional issuers with more developed economy and stronger debt bearing capacity; for the special bonds of local government, the Company will choose the projects listed in the national key planning and construction to carry out the bond investment business on the premise of full risk assessment. Against the backdrop that the national fiscal and financial policies remain stable, it is expected that the quality of the Company's assets granted to local government financing platforms will remain stable.

Risk management and control for industries that we have reduced or withdrawn from

For the 16 industries[5] that we have reduced or withdrawn from, the Company continued to implement the strategy of customer classification management, raise its entry threshold for customers, continued to promote asset and customer restructuring. As at the end of the reporting period, the business financing exposure to the industries that we have reduced or withdrawn from (calculated on the full statistical calibre) amounted to RMB123.822 billion, representing an increase of RMB1.562 billion as compared with the beginning of the year, and was mainly granted to the quality strategic customers and customers on the whitelist at Head Office and branches. The non-performing loan ratio of industries that we have reduced or withdrawn from was 4.21%, down by 1.79 percentage points as compared with the beginning of the year. Affected by a continued decline in the risk exposure to and the scale of individual major customers, the non-performing loan ratio of 3 industries including nonferrous metal smelting and calendaring, fertilizer manufacturing and water transport was higher than that at the beginning of the year, while the non-performing loan ratio of the other 13 industries was lower than that at the beginning of the year. In 2021, for industries that we have reduced or withdrawn from, the Company will continue to focus on supporting leading enterprises in industries and regional quality enterprises closely related to people's livelihood, prioritised loans satisfying green credit financing needs related to energy conservation and environmental protection and technological upgrading, devoted efforts to reduce and withdraw from customers associated with significant risks, low-end technology customers or those with overcapacity issues, enterprises with high leverage and "zombie enterprise". It is expected that the overall risk in these industries is controllable in 2021.

5 The 16 industries refer to coal, coal chemical, coal trade, iron and steel, steel trade, basic chemical, commonly used metal ore mining, nonferrous metal smelting and calendaring, shipbuilding, glass, water transport, textile and chemical fiber, photovoltaic, fertiliser, machine tool and synthetic material manufacturing.

8. Capital management

The Company continued to optimise its business structure and enhance capital management. During the reporting period, the Company satisfied the minimum capital requirements, reserve capital requirements and counter-cyclical capital requirements imposed by the CBIRC, with relatively adequate capital buffer.

As at the end of the reporting period, the percentage of the Company's risk-weighted assets under the Weighted Approach to total assets was 66.85%; the percentage of risk-weighted assets under the Advanced Measurement Approach to total assets was 57.27%, lowered by 9.58 percentage points as compared to that under the Weighted Approach, indicating an effective saving in capital. The risk-adjusted return on capital (RAROC, before tax) under the Advanced Measurement Approach was 24.33%, significantly higher than the cost of capital.

As at the end of the reporting period, the growth rate of risk-weighted assets (having taken into consideration the floor requirements during the parallel run period) under the Advanced Measurement Approach of the Company was 8.20%, lower than the growth rate of risk-weighted assets under the Weighted Approach of 10.99%. As at the end of the reporting period, the Core Tier 1 capital adequacy ratio of the Company under the Advanced Measurement Approach and the Weighted Approach increased as compared with the end of the previous year, thus achieving the endogenous growth of capital.

The Company adhered to the development strategies of marketisation, branding and internationalisation, and constantly promoted the innovation and development of assets securitisation business to provide room for capital saving. During the reporting period, the Company issued a total of 19 asset securitisation projects through the inter-bank market with a total issue size of RMB78.183 billion. The underlying assets included credit card loans, auto installment loans, personal housing mortgage loans and non-performing loans.

With the approval of the CBIRC and the People's Bank of China, the Company issued Undated Additional Tier 1 Capital Bonds in China's national inter-bank bond market with an issue size of RMB50 billion on 9 July 2020. The funds raised, after deducting the necessary issuance fees, have been used to supplement the Company's additional Tier 1 capital based on applicable laws and regulatory approvals. For details, please refer to the relevant announcements published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. The Company will continuously improve the level of shareholder returns through various methods such as improving the efficiency of capital utilisation and optimising the structure of assets and liabilities.

In recent years, the regulatory documents in specific areas such as the "Assessment Methods for Systemically Important Banks (《系統重要性銀行評估辦法》)" and "Notice on the Establishment of Counter-cyclical Capital Buffer Mechanism (《關於建立逆週期資本緩衝機制的通知》)" have been issued in succession. The international regulatory reform has continued to advance, and the final reform plan of Basel III will be fully implemented in the next few years. The Company will continue to uphold the principles of fund generation and accumulation mainly from internal resources and capital replenishment through external resources as additional assistance and focus on the construction of extensive wealth management value system, while constantly enhancing refined capital management, optimising capital sources allocation, increasing the application of the risk-adjusted return on capital (RAROC), the economic value added (EVA) and other valuation indicators, tracing the progress of international capital regulatory reform, continuing to implement the internal capital adequacy assessment procedures (ICAAP), keeping a dynamic balance of supply and demand of capital, comprehensively planning the use of various capital instruments and achieving fund-raising through various channels and ways. Through the above efforts, the capital adequacy ratio of the Company is expected to achieve its goals, i.e. the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio will reach and maintain above 10.0%, 11.0% and 13.0%, respectively, in 2021 to 2023. The above capital planning scheme is subject to consideration and approval at the 2020 Annual General Meeting of the Company.

9. Transformation of corporate customer services

The Company adhered to the "Light-model Bank" strategy, leveraging on traditional credit support, managed to meet the all-round and multi-level financial needs of corporate customers through various ways such as direct investment in equity interest, wealth management funds, proprietary investment, bill financing, bond underwriting and others. The Company facilitated the development of the real economy with the service concept of "integrating investment banking and commercial banking" and made several achievements.

As at the end of the reporting period, the Company's balance of aggregate financing products to customers (FPA) was RMB4,259.175 billion, representing an increase of RMB570.256 billion over the beginning of the year, among which, the balance of traditional financing[6] was RMB2,245.767 billion, representing an increase of RMB211.359 billion over the beginning of the year; the balance of non-traditional financing[7] was RMB2,013.408 billion, representing an increase of RMB358.897 billion over the beginning of the year. The balance of non-traditional financing accounted for 47.27% of the balance of aggregate financing to customers, representing an increase of 2.42 percentage points over the beginning of the year.

During the reporting period, the Company built and gradually improved the asset sales platform serving the concept of "integrating investment banking and commercial banking", and used Fintech methods to open up internal resource channels so as to strengthen the close cooperation with CMB Wealth Management, CIGNA & CMB Life Insurance and CM Securities, and expand the ecosphere which was formed through cooperation with various funders and managers, such as trust companies, mutual funds, securities companies and insurance companies. The Company provided unified financial services featuring "integrating investment banking and commercial banking" by virtue of light operations such as bond sales, corporate wealth management, market transactions (matching), syndicated distribution, from the customers' perspective instead of the perspective of single assets, making efforts to become a transactional resource integrator, and accomplishing differentiated competition. Focusing on corporate direct financing, the Company helped enterprises obtain bond financing support at a lower cost. During the reporting period, Company ranked the third as the lead underwriter in terms of the amount of corporate credit bonds underwritten. Through M&A financing services, the Company has established comprehensive and in-depth cooperative relationship with some leading enterprises in industry.

6 Traditional financing comprises of general corporate loans and commercial bills discounting (including transfer-out of outstanding bills), acceptance, letters of credit, financial guarantees and non-financial guarantees.

7 The eight compositions of non-traditional financing include: asset operation, proprietary non-standardised corporate investments, financing wealth management, debt financing instruments with the Company as the lead underwriter, matching transactions, financial leasing, cross-border coordination financing and leading syndicated loans.

At the same time, the Company has actively explored business model innovation and accumulated extensive experiences in successfully supporting advanced manufacturing. Firstly, the Company pioneered the cross-branch supply chain business model featuring "provision of services by all branches in a collaborative manner to one enterprise and its industrial chain (全國做一家)", which aims to build a bank-wide service network for core enterprises and their upstream and downstream segments along industrial chains, and relief the difficulties faced by small- and medium-sized companies for failure of obtaining financing with credit or asset pledge, and inspire the rapid growth of industrial chains while also reducing the remote operation costs and risk control costs of the Company's credit business. As of the end of the reporting period, the Company served 80 core enterprises through such business mode, covering 5,120 suppliers, among which 4,000 suppliers were granted the financing support. Secondly, the Company continued to focus on innovative growth-oriented high-tech small- and medium- sized enterprises by promoting its Qian Ying Zhan Yi (千鷹展翼) plan and provided comprehensive financial services covering the full growth cycle and the entire value chain. During the reporting period, the number of IPO listed companies opening special fund-raising accounts with the Company was 167, accounting for 42.93% of the number of domestic listed companies for the year, with an increase of 12.88 percentage points as compared with the previous year, and won IPO fund-raising deposits of RMB152.118 billion with a market share of 36.38%, representing an increase of 26.79 percentage points as compared with the previous year. Thirdly, the Company, capitalising on the advantages of the integrated management of bill business, provided various enterprises with integrated services covering the full life cycle of bills, served as the principal bank for corporate bill settlement, established a comprehensive bill service platform named as the "Bill Manager (票據大管家)" at home, expanded bill settlement scenarios abroad by operating cash flow for forward settlement, seized the opportunity brought by "forward settlement by bill, short-term financing by bill, and bill asset standardisation", and continuously strengthened product innovation around the bill management and customised financing needs of core customers in order to improve customer experience.

In the future, against the background where the interest rates will further move downwards and the financial disintermediation will be accelerated, from the FPA perspective, with adherence to focusing on the customers' needs as the starting point, depending on the Bank's on- and off-balance sheet financing base, and centering on the direct and indirect financing markets, fund sources consisting of existing funds of the Company and incremental funds on market, the Company will actively promote multi-dimensional development such as bond underwriting, matchmaking transactions, and financial leasing. According to market changes and the characteristics of different financing channels, the Company will provide customers with diversified services that meet their needs and back the development of real economy.

10. Fintech

The Company continued to increase investment in Fintech resources, and further promoted the digital transformation and development of the Bank and the upgrade of the 3.0 business model during strategic evolution on the "network, digital, and smart" basis.

Constant transformation and upgrade of business model. The first was is to significantly enhance digital operations. The Company continued to take monthly active users (MAU) as the "North Star Metric" to carry out the construction of a digital operation system. The two major APPs, i.e. the"CMB APP"and "CMB Life APP" have become the main operating channels for retail customers. CMB Corporate APP and "Zhao Ying Tong (招贏通)"as the interbank online service platform have been constantly optimised. The Company continuously enriched the ways of interacting with customers through live streaming as a method and built an online and offline three-dimensional management system being themed by "headquarter – branches – sub-branches – relationship managers" by launching headquarter network operating service center, branch outlet online stores and wealth management relationship manager communication. The second was to yield remarkable results by digital operations. The Company built a digital customer acquisition model and continued to explore new growth drivers for customer acquisition. Number of wealth management customers using CMB APP, amount for wealth management transactions via CMB APP, and loan balances granted via CMB APP have continued to increase. The third was to make significant progress on ecological construction. The Company established a retail customer service ecosystem with rich scenarios featuring convenience, travel, meal coupons, and movie tickets and has achieved initial results. The Company supported the digital transformation of corporate customers by initiating various corporate service products such as Xinfutong (薪福通), Cash Management (CBS), Invoice Cloud (發票雲), AI customer service and others and established a digital connection with corporate customers.

Constant improvement of digital management. The first was to comprehensively improve operation and management efficiency of the Bank. The Company set up an intelligent monitoring system for customer experience to promote the accelerated transformation of customer experience management from "Reactive" to "Proactive". Relying on AI, voice recognition and other technologies to continuously improve intelligent customer service, the Company built an intra-bank collaborative office platform to improve work efficiency across the Bank. The second was to promote the online migration of the top ten high-frequency businesses based on customer-orientation and simplify the operations between customers and relationship managers, thereby effectively shortening business processing time, and optimising customer experience. The third was is to advance a comprehensive upgrade of risk management. In terms of transaction risk, an intelligent risk control platform known as "Libra System" was established to effectively intercept telecom fraudulent transaction; in terms of credit risk, an intelligent pre-warning system for corporate customers was established to achieve timely anticipated judgment and early warning of potential risks; in terms of market risk, a quantitative credit analysis model covering more than 90% of credit bond issuers on the market in China was set up to realise pre-warning of default risk associated with credit bond; in terms of compliance risk, AI pre-warning technology has been actively promoted in the field of anti-money laundering to improve the ability of automated risk monitoring.

Preliminary construction of future-oriented technology base and capabilities. Firstly, with respect to cloud computing, an open IT architecture was created to boost the implementation of cloud migration across the Bank. Secondly, with respect to technology middle-office, Application Programming Interface (API) was used as a main co-share to promote the open choice and reuse of business and technical components. Thirdly, with respect to data middle-office, a unified data portal known as "Zhao Shu (招數)" was established to improve the Bank's data analysis and data utilisation. Fourthly, with respect to AI, three major AI cloud services, i.e. customer service cloud, public opinion cloud and visual cloud have been improved increasingly.

Constant improvement of system and mechanism with technical innovation. The Company constructed a normalised small team innovation model based on the "Dream-Sparking Program", carried out innovative exploration through integrated project-based teams, and stimulated innovation vitality of the whole Bank.

Looking forward to the future, the Company will focus on the main business concept of building an extensive wealth management system, further innovate and expand the content and scope of "network, digital, and intelligent" development, and use Fintech to comprehensively promote the digital transformation and upgrade of China Merchants Bank. The first is to further give impetus to business transformation and build new digital operation models and new capabilities. In respect of retail finance business, focusing on MAU and AUM, the Company will comprehensively promote ecological construction, take the lead in completing digital transformation and promote wealth management towards smart operation. In respect of corporate finance business, the Company will enhance customer management and asset organisation based on the concept of "integrating investment banking and commercial banking", fully materialise online underlying business, focus on corporate digital services, and give priority to supply chains to continuously deepen industrial internet ecological operation. The second is to consolidate the core capabilities of comprehensive asset management, comprehensive risk control, and comprehensive operations to fully support business development. The Company will comprehensively form the core capabilities in investment research, trading, risk control and operation associated with asset management, establish a risk management system adapting to the extensive wealth management, continue to innovate risk control tools and improve the efficiency of business delivery to reduce operating costs with technology empowerment. The third is to continue to build future-oriented infrastructure with openness and intelligence as the core. The Company will promote the transformation of cloud architecture in an all-round way, build a technology middle-office on which empowerment is to be shared across the Bank and create a smart engine that supports business intelligence to fully support rapid business innovation. The fourth is to continue to optimise the Bank's innovation mechanism, improve the small team innovation incubation mechanism, foster an innovation culture, and stimulate the Bank's innovation vitality.

3.10 Business Operation

3.10.1 Retail finance business

Business overview

During the reporting period, the profit before tax from the retail finance business of the Company amounted to RMB63.560 billion, representing a decrease of 2.45% as compared with the previous year, mainly due to increased provision for credit impairment loss for the period. Net operating income from the retail finance business amounted to RMB155.082 billion, representing an increase of 8.79% as compared with the previous year and accounting for 57.98% of the net operating income of the Company. Among the income from retail finance, the net interest income amounted to RMB102.873 billion, representing an increase of 8.08% as compared with the previous year and accounting for 66.33% of the net operating income from retail finance; the net non-interest income amounted to RMB52.209 billion, representing an increase of 10.21% as compared with the previous year while accounting for 33.67% of the net operating income from retail finance and 59.34% of the net non-interest income of the Company. During the reporting period, the fee and commission income from retail wealth management of the Company was RMB25.840 billion, representing an increase of 32.83% as compared with the previous year and accounting for 50.77% of the net fee and commission income from retail finance; the Company recorded a fee income of RMB19.393 billion from retail bank cards, representing an increase of 0.29% as compared with the previous year.

Retail customers and total assets under management from retail customers

As at the end of the reporting period, the Company had 158 million retail customers (including debit and credit card customers), representing an increase of 9.72% as compared with the end of the previous year, among which, the number of Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 3,101,800, representing an increase of 17.15% as compared with the end of the previous year. The balance of total assets under management from our retail customers amounted to RMB8,941.757 billion, representing an increase of 19.32% as compared with the end of the previous year. Among which, the balance of total assets under management from the Sunflower-level and above customers amounted to RMB7,345.587 billion, representing an increase of 20.71% as compared with the end of the previous year, and accounting for 82.15% of the balance of total assets under management from retail customers of the Bank. As at the end of the reporting period, the balance of deposits from retail customers of the Company amounted to RMB1,899.370 billion, representing an increase of 13.45% as compared with the end of the previous year and ranking first among national small- and medium-sized banks according to data released by the PBOC. During the reporting period, the demand deposits accounted for 67.38% of the daily average balance of deposits from retail customers of the Company. As at the end of the reporting period, a total of 158,000,000 All-in-one Cards had been issued by the Company for retail customers, up by 6.76% as compared with the end of the previous year.

The sudden outbreak of the pandemic in the first quarter of 2020 had certain negative impact on the Company's retail customer acquisition, but with the effective prevention and control of the pandemic and the acceleration of the resumption of work and production, particularly benefited from the strong support of Fintech for online services, the multi-dimensional demands of retail customers has been efficiently responded and guaranteed. Retail customer acquisition has been improved significantly in the second quarter and the third quarter, the total assets under management from retail customers have grown rapidly, and the growth rate of assets under management from the Sunflower-level and above customers increased significantly as compared with the previous year. Facing the possible reoccurrence of the pandemic, as well as challenges due to intensified competition from peer companies in the same and other industries, the Company will adhere to the goal of creating the "bank offering the best customer experience", vigorously practice the methodology of "openness and integration", further strengthen customer base expansion and operation, constantly improve product creation and refined management capabilities, and strive to create value for customers, while adhering to the guidance of MAU as the "North Star Metric", deepening the digital transformation of retail finance 3.0, strengthening the application of Fintech to support the development of online services, so as to broaden the service boundaries, create the ultimate best experience and expand differentiated leading edge in the era of mobile Internet.

Wealth management

In 2020, the Company recorded RMB2,217.172 billion in the balance of retail wealth management products as at the end of the reporting period, representing an increase of 17.72% as compared with the end of the previous year. Through seizing opportunities in the capital market recovery and blowout in customers' need for fund allocation, the Company achieved the sales of non-monetary mutual funds of RMB610.704 billion, representing an increase of 177.88% as compared with the previous year. The Company recorded RMB469.120 billion in agency distribution of trust schemes, representing an increase of 38.19% as compared with the previous year; and RMB84.015 billion in premiums from agency distribution of insurance policies, representing a decrease of 10.92% as compared with the previous year, which was mainly due to the pandemic, resulting in more difficulties in contacting customers through offline channels for agency distribution of insurance policies. In 2020, the Company recorded a fee and commission income from retail wealth management business of RMB25.840 billion, among which, income from agency distribution of funds amounted to RMB9.400 billion, income from agency distribution of trust schemes amounted to RMB7.059 billion, income from agency distribution of insurance policies amounted to RMB5.540 billion, income from agency sales of wealth management services amounted to RMB3.618 billion and income from agency distribution of precious metals amounted to RMB223 million. For details of the reasons of changes in fee and commission income from wealth management, please refer to 3.9 "Net non-interest income" in this chapter.

During the reporting period, facing intensifying market competition, the Company gave full play to its advantages in brand recognition, online and offline integration, and expertise in asset allocation and financial planning, focused on customer needs and developed refined classification and management based on customer portraits, and through "people + digital" approach, the Company further enhanced the professional capabilities of its front-line team, continued to promote the integrated online and offline digital transformation, innovatively created a comprehensive financial service system, and strived to provide customers with high-quality wealth management services. During the reporting period, the Company's relationship managers established online business relationships with Golden Card Holder customers and Sunflower customers through the accessing functions of the APPs, serving 9,327,200 customers, representing a year-on-year increase of 44.77%. The number of transactions completed was 2,246,100, representing a year-on-year increase of 296.76%. The transaction amounts were RMB472.549 billion, representing a year-on-year increase of 319.57%. At the same time, leveraging on technology and data, the Company constantly improved the compatibility of services to customer needs. Firstly, the Company improved the analysis and processing capabilities on customer behavior data to gain insights into customers' in-depth needs. Secondly, the Company accurately identified customer wealth management needs and risk preferences, fully integrated business scenarios, built a complete marketing model system, assisted customers in achieving asset preservation and appreciation, and strived to win customers' trust, so as to become the principal bank for customers' wealth management.

Private banking

As at the end of the reporting period, the Company had 99,977 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 22.41% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB2,774.629 billion, representing an increase of 24.36% as compared with the end of the previous year; total assets per account amounted to RMB27.7527 million, representing an increase of RMB436,100 as compared with the end of the previous year. As at the end of the reporting period, the Company had 91 private banking centers and 64 wealth management centers in 76 domestic cities and 6 overseas cities, and has established a three-dimensional service network for high-end customers consisting of private banking centers, wealth management centers, "Special Features for Private Banking (私人銀行專區)" in CMB APP and the remote personal assistant team of the Network Operation Service Center.

The private banking business of the Company is based on the operating philosophy of "It's our job to build your everlasting family fortune". The Company strived to provide professional, comprehensive, private and confidential private banking financial and non-financial services in areas of investment, taxation, legal affairs, mergers and acquisitions, financing and settlement for high-worth customers at the three levels of individuals, families and enterprises. Leveraging on its large and high-quality retail customer base, and through continuous improvement of professional capabilities, the Company gradually forged its competitive advantage focusing on the professional investment consulting service model. During the reporting period, the Company kept strengthening the integration of wholesale and retail services, online and offline services, financial and non-financial services and domestic and overseas services, strengthened customer expansion, and deepened its comprehensive operation and service to customers, so as to realise mutual benefit and win-win situation for customers and the Company. Meanwhile, the Company deepened the use of Fintech, accelerated its digital progress of private banking in improving accurate identification of customer needs, enhancing professional skills of relationship managers, offering professional financial solutions, and optimising internal operational procedures to promote efficient operation of business and better customer service experience.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 99.5316 million active credit cards, representing an increase of 4.44% as compared with the end of the previous year, and there were 66.7093 million active credit card users, representing an increase of 3.42% as compared with the end of the previous year. The balance of credit card loans was RMB746.606 billion, representing an increase of 11.27% as compared with the end of the previous year. The percentage of revolving balances of credit cards was 20.78%. In 2020, the credit card transactions of the Company amounted to RMB4,341.071 billion, representing a decrease of 0.17% as compared with the previous year. Interest income from credit cards amounted to RMB56.338 billion, representing an increase of 4.33% as compared with the previous year. Non-interest income from credit cards amounted to RMB26.175 billion, representing an increase of 0.72% as compared with the previous year.

Affected by the global pandemic, and combined with the effect of multiple factors such as the domestic macro economy operating at a relative low level and in-depth structural adjustments, the asset quality of credit card of the Company showed certain fluctuations in the first half of 2020, relevant indicators such as balance of overdue credit card loans and non-performing loans faced the pressure of short-term and temporary increases. With the effectiveness of pandemic prevention and control domestically, and the support of relevant national corporate relief and work and production resumption policies, the Company took a multi-pronged approach and actively responded, thus various risk indicators for credit cards have been gradually stabilised since the second half of 2020. As at the end of the reporting period, the non-performing loan ratio of the Company's credit card loans was 1.66%, up by 0.31 percentage point as compared with the end of the previous year, and down by 0.19 percentage point as compared with the end of the first half of 2020. The Company will continue to pay attention to the development of the pandemic, closely monitor changes in the macro environment, continue to optimise the customer base and asset structure, and dynamically adjust and deploy risk management strategies. Since 2021, the Company will adopt a stable and low-volatility business model for its credit card business to effectively respond to the current risk cycle and achieve the balanced development of credit card business with "quality, efficiency and scale".

During the reporting period, facing the complicated and severe external environment, the Company focused on improving quality and efficiency, and adhering to an innovation-driven and technology-driven approach to ensure the healthy development of credit card business. Details include: under the background of the credit card business shifting from the incremental market to the existing market, active and constant optimisation of the customer base structure, continuous iteration and upgrade in the business capabilities of the teams, and improvement in customer acquisition efficiency; boosting consumption after the pandemic through multiple measures, expanding the business scenarios of "meal coupons (飯票)" and "movie ticket (影票)", and promoting customer engagement and loyalty through marketing activities such as "Daily Red Pocket (天天紅包)", "Monthly Little Koi (月月小錦鯉)", "10 yuan Storm (10元風暴)", "Free Chicken Leg for Mobile Payment (手機支付加雞腿)"; strengthening the product competitiveness of credit cards, conducting themed marketing for "Constellation Guardian Credit Card (星座守護信用卡)", launching "Bilibili Co-branded Credit Card (bilibili聯名信用卡)", and building a close connection between our brand and products with young people; adhering to asset structure optimisation and enhancing risk resistance capabilities of assets; promoting the digital transformation of consumer financial products and strengthening the ability to accurately match customer needs; consolidating smart service interaction capabilities, improving the efficiency and quality of interactive channels, optimising the construction of AI scenarios, and improving customer experience. In addition, the Company further deepened the operation of the CMB Life APP platform. For details of the CMB Life APP, please refer to 3.10.3 "Distribution Channels".

Retail loans

As at the end of the reporting period, the total retail loans of the Company amounted to RMB2,643.953 billion, representing an increase of 13.57% as compared with the end of the previous year and accounting for 55.89% of the total loans and advances to customers, up by 0.16 percentage point as compared with the end of the previous year. In particular, total amount of the Company's retail loans (excluding credit card loans) reached RMB1,897.394 billion, representing an increase of 14.51% as compared with the end of the previous year, accounting for 40.11% of total loans and advances to customers of the Company and representing an increase of 0.44 percentage point as compared with the end of the previous year.

As to business development, during the reporting period, the Company has strived to ensure the financial services since the outbreak of the pandemic. For micro-finance loan business, the Company strengthened its efforts in supporting micro-finance loans, actively helped small- and micro-sized enterprises alleviate financing difficulties to support the resumption of work and production, and continued to improve the level and efficiency of financial services for small- and micro-sized enterprises based on Fintech. For residential mortgage loan business, the Company strictly implemented local real estate control policies in support of residents' reasonable needs for their own homes, so as to realise the sound development of residential mortgage loan business. For consumer loan business, the Company strictly controlled the usage of consumer loans and carefully selected quality customers to reasonably satisfy the consumer loan needs. As at the end of the reporting period, the Company recorded a balance of residential mortgage loans of RMB1,264.388 billion, representing an increase of 15.10% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB474.528 billion, representing an increase of 17.12% as compared with the end of the previous year. The balance of consumer loans amounted to RMB135.606 billion, up by 9.63% as compared with the end of the previous year. As at the end of the reporting period, the Company had 8,079,300 retail loan (excluding credit card loans) customers, representing an increase of 25.80% as compared with the end of the previous year. The rapid expansion of customer base was mainly attributable to the light customer acquisition model through online resources.

As to the quality of assets, the Company managed to maintain a stable asset quality for retail loans by constantly optimising its strategies for risk management. However, due to the impact of the possible reoccurrence of the pandemic, the Company still faces significant uncertainties in the future. As at the end of the reporting period, the balance of the special mention retail loans of the Company amounted to RMB25.710 billion, and its special mention retail loan ratio was 0.97%, down by 0.21 percentage point as compared with the end of the previous year. The balance of non-performing retail loans amounted to RMB21.690 billion, and the non-performing loan ratio was 0.82%, up by 0.09 percentage point as compared with the end of the previous year. Among non-performing retail loan portfolio, the non-performing ratio of micro-finance loans was 0.63%, down by 0.18 percentage point as compared with the end of the previous year; the non-performing ratio of consumer loans was 1.47%, up by 0.29 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 81.34% of the new non-performing retail loans formed of the Company during the reporting period, the mortgage and pledge rate of above mortgage and pledged loans as at the end of the reporting period was 30.53%. Given that the vast majority of such new non-performing retail loans were fully secured by collaterals, the risks were under control.

As to risk management, the Company continued to strengthen the construction of risk control system, while taking into account of changes in the external economic situation and the differences in different regions, so as to effectively improve risk management capability. Firstly, in terms of customer group selection, the Company insisted on selecting high-quality customers with a job and income in a stable industry as the major source of customer acquisition. Secondly, in terms of construction of quantitative risk control capability, the Company integrated the tags of internal and external customer to enrich risk identification dimensions, continuously improved the effect of quantitative models, and meanwhile introduced machine learning and relationship map algorithms and models to promote the coverage of the risk models to all processes and all products. Thirdly, in terms of post-loan management capabilities, the Company constantly improved digital post-loan management, and implemented full-life cycle quantitative risk monitoring and classified management, so as to ensure stable asset quality.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB50.767 billion, representing an increase of 12.70% as compared with the previous year. The net operating income from wholesale finance of the Company was RMB116.723 billion, representing an increase of 6.28% as compared with the previous year, and accounting for 43.64% of the net operating income of the Company. Among them, net interest income of wholesale finance business amounted to RMB81.075 billion, representing an increase of 9.23% as compared with the previous year, and accounting for 69.46% of the net operating income of wholesale finance; the net non-interest income of wholesale finance amounted to RMB35.648 billion, representing an increase of 0.15% as compared with the previous year, and accounting for 30.54% of the net operating income of wholesale finance business, and 40.52% of the net non-interest income of the Company.

Wholesale customers

As at the end of the reporting period, the total number of corporate customers of the Company was 2,233,200, up by 6.42% as compared with the end of the previous year. The number of newly acquired corporate depositors during the reporting period was 397,000, contributing daily average deposits of RMB224.884 billion, among them, 19,700 newly acquired corporate depositors contributed daily average deposit of more than RMB500,000, and the proportion of the number of newly acquired corporate depositors that contributing daily average deposits of RMB500,000 and above increased by 1.10 percentage points as compared with the previous year. During the reporting period, the proportion of online customer acquisition increased to 21.82%, and the online centralised operation coverage rate for corporate customers reached 34.54%. During the reporting period, the withholding tax and social security transactions of the Bank amounted to 12,629,700, with a transaction amount of RMB852.165 billion, representing an increase of 16.09% as compared with the previous year. The Company has established the corporate customer service system featuring segmentation and classification-based management, as well as professional and dedicated management in respect of strategic customers, institutional customers, small-sized enterprise customers, financial institution customers and offshore customers.

With regards to its strategic customers, the Company adopted intensive management approach, focused on improving the professional service capabilities in the industry, and provided strategic customers with ecological services and a comprehensive service plan of "integrating investment banking and commercial banking". As at the end of the reporting period, the number of the strategic customers under the Head Office of the Company was 288[8], increasing by 6 as compared with the end of the previous year; the balance of daily average proprietary deposits amounted to RMB734.844 billion, increasing by 20.90% as compared with the beginning of the year; the balance of general loans amounted to RMB621.331 billion, increasing by 23.17% as compared with the beginning of the year. The Company had 6,142[9] branch-level strategic customers. The daily average balance of the proprietary deposits amounted to RMB545.406 billion. The balance of general loans amounted to RMB242.585 billion.

With regards to its institutional customers, the Company, by deepening the "Head Office-to-Head Office" strategic cooperation with the national ministries and commissions in all-round, fully exploited the low cost "liquid funds" and "incremental funds" on fiscal, social security, public resource transactions, government-based companies, provident fund and other customer groups, supported the construction of convenient service scenarios, attracted large amount of funds into retail business, and at the same time continued to innovate cooperation models, seized the opportunity of special debts, so as to maintain the rapid growth of institutional customers. During the reporting period, the Company had 41,500 institutional customers, up by 17.23% as compared with the previous year, with an average daily deposit balance of RMB914.356 billion, representing a year-on-year increase of 8.81%. The market coverage rate of whole process services for local governments' special debts issuers at provincial level increased from 77.78% to 97.22%. Among the special debts issued nationwide, projects served by the Company amounted to RMB1.30 trillion, with a coverage rate of 36.65%, and retained deposits of RMB638.873 billion via capital for bond issuance, representing a year-on-year increase of 143.10%. The Company secured the qualification for offering the occupational annuity services in Guangdong and Zhejiang, with entrusted pension funds (including occupational annuity and enterprise annuity) amounted to RMB100.459 billion, representing a year-on-year increase of 133.87%.

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8 The number of strategic customers at the Head Office level is that of the group customers as the strategic customers at the Head Office level operated by the Company in 2020.

9 The number of strategic customers at the branch level is that of the corporate customers as the strategic customers at the branch level operated by the Company in 2020.

With regards to its small-sized enterprise customers, the Company continued to focus on the three major customer groups of "supply chain, new growth engine of Qian Ying Zhan Yi (千鷹展翼) and basic customer group", and through the establishment of light customer acquisition through online channels, optimisation of account opening process, establishment of the lobby service system in outlets, online centralised operation of corporate customers, "AI + manual" smart business model, and enrichment of online and offline non-stop convenient government services for corporates and other measures, the Company established a new business model of "acquisition of customers in batches, centralised operation, online and offline integration" for small-sized enterprises. As at the end of the reporting period, the number of small-sized enterprise customers reached 2,122,100 (calculated on the Bank's calibre), representing an increase of 133,400 as compared with the beginning of the year. The average daily deposit balance of small-sized enterprises amounted to RMB651.718 billion, representing an increase of RMB243.366 billion as compared with the beginning of the year. The increase accounted for 51.38% of the increase in the average daily deposit balance of corporate customers. Among which, demand deposits was RMB537.572 billion, representing an increase of RMB181.305 billion as compared with the beginning of the year, and demand deposits accounted for 82.49%, which was 25.09 percentage points higher than the proportion of demand deposits in the average daily deposits balance of corporate customers. As at the end of the reporting period, the Company had a total of 31,400 registered customers under "Qian Ying Zhan Yi (千鷹展翼)".

With regards to its financial institution customers, the Company selectively expanded high-quality financial institution customers, carried out in-depth service of strategic financial institution customers under comprehensive service plans and used Fintech approach to quickly access to basic financial institution customers, so as to efficiently explore the financial value and platform value of its financial institution customers. As at the end of the reporting period, the numbers of strategic financial institution customers at the Head Office-level and branch-level reached 67 and 196, respectively.

With regards to its offshore customers, the Company made full use of offshore platforms to serve non-resident customers, deepened the service for strategic customers and new growth engine customers, carried out segmentation and classified operations, implemented detailed name list management, and carried out "different policy for each bank" and "different policy for each account", and promoted the professional operation of the industry, so as to play an important role in the cross-border service system. During the reporting period, the balance of deposits of the three types of non-resident customers at a point of time exceeded USD26.0 billion, representing an increase of over 80%; the international settlement volume was USD322.313 billion, representing an increase of over 20%.

Corporate loans

As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,758.951 billion, representing an increase of 8.29% as compared with the end of the previous year and accounting for 37.18% of total loans and advances to customers of the Company, and representing a decrease of 1.71 percentage points as compared with the end of the previous year. Among them, the balance of the medium- and long-term loans to domestic enterprises amounted to RMB1,012.826 billion, representing an increase of 24.89% as compared with the end of the previous year and accounting for 62.09% of the total loans to domestic enterprises, and representing an increase of 7.50 percentage points as compared with the end of the previous year. The non-performing loan ratio of our corporate loans was 1.69%, representing a decrease of 0.36 percentage point as compared with the end of the previous year; the weighted average default probability of the risk exposure of the domestic non-defaulting corporate customers was 0.74%, down by 0.25 percentage point as compared with the end of the previous year. The quality of corporate loan assets was stable.

Since the underlying data is subject to adjustment or elimination as a result of change in classification of certain enterprises after they have grown larger in scale at the beginning of the year, the calibre of our large-, medium- and small-sized enterprises business at the beginning of the year was adjusted as compared to the end of the previous year. As at the end of the reporting period, the balance of the Company's loans granted to domestic large-sized enterprises amounted to RMB1,403.612 billion, representing an increase of 9.15% as compared with the beginning of the year, accounting for 86.05% of our total loans granted to domestic enterprises, down by 0.52 percentage point as compared with the beginning of the year; the non-performing loan ratio was 1.66%, down by 0.24 percentage point as compared with the beginning of the year. The balance of the Company's loans granted to domestic medium-sized enterprises amounted to RMB114.257 billion, representing a decrease of 14.21% as compared with the beginning of the year, and accounting for 7.00% of our total loans granted to domestic enterprises, down by 1.97 percentage points as compared with the beginning of the year; the non-performing loan ratio was 4.09%, down by 0.60 percentage point as compared with the beginning of the year. The balance of the loans granted to domestic small-sized enterprises amounted to RMB113.412 billion, representing an increase of 71.03% as compared with the beginning of the year, accounting for 6.95% of our total loans granted to domestic enterprises, up by 2.49 percentage points as compared with the beginning of the year; the non-performing loan ratio was 1.33%, down by 2.30 percentage points as compared with the beginning of the year.

During the reporting period, the Company focus on the "Light-model Bank" strategy, continued to optimise loan structure, and closely followed national strategies, especially for the loans in Guangdong-Hong Kong-Macau Greater Bay Area, Yangtze River Delta, Beijing-Tianjin-Hebei, Yangtze River Economic Belt, Chengdu and Chongqing City Cluster and other key areas. Meanwhile, guided by the national policies, the Company strengthened product innovation and loans in key areas such as pandemic prevention and control, manufacturing, private enterprises, green finance and inclusive small- and micro-enterprise loans, and fully supported the real economy development. As at the end of the reporting period, the balance of green loans of the Company was RMB207.133 billion, representing an increase of RMB30.360 billion as compared with the end of the previous year, and accounting for 11.78% of the total corporate loans of the Company; the balance of loans to strategic emerging industries was RMB171.415 billion, representing an increase of RMB25.668 billion as compared with the end of the previous year and accounting for 9.75% of the total corporate loans of the Company. For further details of loans extended to the sectors which are subject to the strict regulation of the nation, such as the real estate industry, the local government financing platforms and inclusive small- and micro-enterprise loans, please refer to section 3.9 "Asset quality in key areas" and "Investment of loans".

During the reporting period, the Company developed online financing products for small-sized enterprise customers based on institutional scenarios and established a "3+1" product system featuring "channel, scenario and data" + "product". Based on government procurement scenario, the Company launched Zhengcaidai (政採貸) version 2.0; based on public resource trading scenario, the Company launched Toubiaodai (投標貸); based on export tax rebate scenario, the Company launched Tuishui Kuaidai (退稅快貸) version 2.0; and based on financial settlement scenario for small-sized enterprise customers and data from Interactions between Banks and Taxes (銀稅互動), the Company launched Jiesuan Liuliang Dai (結算流量貸). The Company also developed a mobile operating platform for small-sized enterprise customers, promoted the online process in conducting credit business for small-sized enterprise customers, enhanced its centalised approval efficiency and optimised customer experience.

The main purpose of the Company's syndicated loan business is to enhance interbank cooperation and information sharing, and to spread the risks associated with large-amount loans. As at the end of the reporting period, the balance of syndicated loans amounted to RMB209.364 billion, down by 8.78% as compared with the end of the previous year.

Bill business

During the reporting period, the Company continued to consolidate the customer base of bill business, accelerated innovations in bill products, optimised business process and accelerated online migration, and laid a solid foundation for the development of bill discounting business. The Company had 116,621 customers of bill business, representing a year-on-year increase of 38.42%, and its bills direct discounting business amounted to RMB1,178.480 billion, representing a year-on-year decrease of 4.67%, but kept ranking second in the market in terms of business volume (data from China Banking Association). Among them, the bills online discounting business amounted to RMB325.940 billion, representing a year-on-year increase of 8.42%, and the Company had 15,122 customers of bills online discounting business, representing a year-on-year increase of 11.94%. At the same time, the Company closely integrated the development of bill business with supply chain operations, and the volume of commercial acceptance bill discounting business has increased significantly. During the reporting period, the commercial acceptance bill discount business of the Company amounted to RMB105.687 billion, representing a year-on-year increase of 109.10%, with a market share of 10.23% (data from Shanghai Commercial Paper Exchange Corporation Ltd.), representing a year-on-year increase of 4.86 percentage points. As at the end of the reporting period, the bill discounting balance of the Company amounted to RMB327.479 billion, representing an increase of 45.62% from the end of the previous year.

During the reporting period, the Company actively adhered to the bill rediscounting monetary policy of the central bank. Affected by the policy that the proportion of bill rediscounting conducted by the PBOC for local legal person financial institutions shall not be less than 50%, the business volume of bill rediscounting of the Company showed a downward trend. During the reporting period, the business volume of bill rediscounting amounted to RMB192.956 billion, representing a year-on-year decrease of 6.48%. As at the end of the reporting period, the bill rediscounting balance of the Company amounted to RMB71.696 billion, representing a decrease of 15.97% from the end of the previous year, but the market share of the Company kept ranking first in the industry (data from China Banking Association).

During the reporting period, benefiting from the growth of bill business market, and the increase of transactions regarding discounted bills transferred to other financial institutions, the discounted bills transferred to other financial institutions amounted to RMB975.125 billion, representing a year-on-year growth of 68.35%, ranking second in the market in terms of business volume (data from China Banking Association).

Corporate customer deposits

During the reporting period, the Company deepened system reform, achieved increase in both balance and quality of corporate customer deposits through segmented operation of customers, seized market opportunities and focused on key business scenarios to realised a stable growth in corporate deposits. As at the end of the reporting period, the balance of corporate customer deposits amounted to RMB3,508.557 billion, representing an increase of 18.67% as compared with the end of the previous year; the daily average balance amounted to RMB3,361.742 billion, representing an increase of 16.14% as compared with the previous year; the demand deposits accounted for 57.40% of the balance of the daily average deposits from our corporate customers, up by 2.74 percentage points as compared with the previous year. During the reporting period, the average cost ratio of deposits from corporate customers was 1.75%, down by 0.02 percentage point as compared with the previous year.

Transaction banking business

With respect to the settlement and cash management of fund from corporate customers, the Company accelerated the diversification and improvement of payment and settlement service system. Firstly, the Company integrated the collection points of various online and offline channels, integrated the Company's All-in-one Net Payment (一網通支付), UnionPay Cloud QuickPass (銀聯雲閃付), WeChat Face Recognition Payment (微信人臉識別支付), third-party POS payment and other payment channels into aggregated collection, and expanded compound collection demands on the B+C side for new economy, consumption, medical and health care, insurance and other industries with the cooperation between corporate and personal businesses. During the reporting period, the business volume of aggregated collection was RMB203.673 billion, representing a year-on-year increase of 38.89%. Secondly, the Company focused on three types of customer groups, namely the B2B e-commerce platforms in vertical fields, new economy platforms in retail section, and self-built sales platforms of core enterprises, providing corporate collection services that integrate online and offline, funds splitting and reconciliation, and interbank payment and settlement. During the reporting period, the business volume of B2B collection was RMB627.018 billion, representing a year-on-year increase of 118.27%. Thirdly, the Company upgraded and built the "CBS+" treasury management open platform, to meet the needs of companies at different stages and develop multiple versions of the equity incentive system. The Company also acquired deeper understanding on the daily business activities of companies, and cooperated with high-quality third-party service providers to establish "CBS+ dealer collaboration" and "CBS+ expense control and reimbursement" service plans. As at the end of the reporting period, the Company provided treasury management services to 3,146 group customers. The number of companies under the treasury management reached 102,200, and the number of transactions exceeded 26.5424 million. The coverage rate of the CBS corporate treasury management cloud platform for the Company's strategic customers reached 29.17%, representing an increase of 6.17 percentage points as compared with the end of the previous year. Fourthly, the Company actively explored the improvement on corporate services based on Fintech, the Invoice Cloud (發票雲) platform of the Company took the lead to realise online self-service invoicing for proprietary businesses, and the electronic rate of VAT general invoices was 79.79%. The service efficiency of invoice verification business improved by more than 80%, the time taken for verification on a single transaction was shortened to seconds, and the number of customers served reached 11,258.

With respect to domestic trade financing, the Company focused on providing online supply chain financing services for small- and medium-sized enterprises, so as to help optimise the business environment. Firstly, the Company built a supply chain financial service platform to achieve unified management of multiple upstream and downstream financing products; secondly, the Company promoted online contract signing in the payment agency business, the proportion of customers using online contract signing accounted for 72%, representing an increase of 64 percentage points as compared with the previous year; thirdly, the Company carried out the pilot promotion of account receivable circulation platform to solve the difficulty of core enterprise's credit penetration to upstream and downstream suppliers in the industry chain; fourthly, the Company innovatively launched the full-margin electronic letter of guarantee, realised the online migration of the whole process, and provided online solutions for the small-value, high-frequency guarantee business of the basic customer group. During the reporting period, the business volume of the Company's domestic trade financing amounted to RMB600.825 billion, representing a year-on-year increase of 32.93%, and the business volume of domestic letter of guarantee amounted to RMB93.919 billion, representing a year-on-year increase of 33.69%.

With respect to its cross-border finance, the Company actively promoted the online migration of business process and differentiated services. Firstly, the Company opened a green channel for cross-border remittances for pandemic prevention and control, immediately responded to domestic enterprises' cross-border purchase of pandemic prevention materials, and provided exclusive financial services. Secondly, the Company promoted the trading of goods using electronic bills. Thirdly, the Company realised the online operation of the whole process of import letter of credit, created two online processing channels of online corporate banking and CMB All-in-one Net (招銀一網通) for customers, and improved customer experience through functions such as intelligent verification, automatic filling by using history records and progress tracking. Fourthly, the Company seized the opportunity of new forms of foreign trade to launch the brand-new cross-border e-commerce collection platform. During the reporting period, the Company's corporate international settlement amounted to USD255.521 billion, representing a year-on-year increase of 64.85%. It provided cross-border RMB settlement services to 30,500 corporate customers, representing a year-on-year increase of 30.90%, and the RMB settlements amounted to RMB610.050 billion, representing a year-on-year increase of 154.15%. The business volume of foreign exchange settlement and sales amounted to USD118.582 billion, representing a year-on-year increase of 32.49%, and the business volume of international trade financing amounted to USD22.225 billion, representing a year-on-year increase of 21.67%.

Offshore banking business

During the reporting period, the Company firstly enhanced lines of defense in risk management and anti-money laundering management, improved the acceptance standards for non-resident customers, established a normalised evaluation mechanism for anti-money laundering, and applied the relevant requirements regarding anti-money laundering and sanction compliance into various systems. Secondly, the Company continued to strengthen the advantages of non-resident account licenses, put more efforts in the integration and innovation of non-resident products, and at the same time responded to the national strategies to comprehensively promote the development of free trade business, and took the lead in completing the acceptance and launch of FTU system in the tier-2 branch of Sanya. Thirdly, the Company fully utilised technology to promote the digital transformation of offshore banking business, realising the systematisation of data reporting, the electronisation of business processes, the mobilisation of corporate remittances and the online operation of trade financing.

Investment banking business

During the reporting period, the Company continued to improve its service capabilities of "integrating investment banking and commercial banking". By focusing on the operations of the strategic customers of the Head Office and branches, the Company established relationships with customers through investment banking business and further deepened cooperation to drive the linkage between corporate and personal businesses, achieving a satisfactory development in investment banking business while enhancing the influence of the Company in the market.

With respect to its bonds underwriting business, despite a complex and volatile environment for issuance, the bonds with the Company as the lead underwriter amounted to RMB791.161 billion during the reporting period, representing a year-on-year growth of 21.11%, which was attributable to a series of measures taken by the Company, such as strengthening the establishment of sales system, integrating internal resources, optimising business processes and enhancing product innovation capabilities. The Company actively participated in the issuance of innovative bonds and the underwriting of debt instruments for equity purpose. During the reporting period, the Company led the underwriting of the first commercial mortgage-backed note (CMBN) with a special purpose vehicle (SPV) structure in the market, the first LPR-based floating-rate debt financing instrument of the state-owned enterprise, the first debt financing instruments for pandemic prevention and control, the 10-year debt instrument with the lowest coupon rate among similar bonds of the year and the first batch of standardised bills, etc.

With respect to its M&A financing business, under the unfavourable domestic and overseas situations, the company focused on key business areas such as mixed ownership reform of state-owned enterprises, private placements and mutual fund of real estate investment trusts (REITs), and continued to integrate internal and external resources. While meeting the financing needs of customers, the Company achieved rapid development in the M&A financing business, and established comprehensive and in-depth cooperative relationships with a group of leading enterprises in the industry through M&A financing services. During the reporting period, the Company achieved M&A financing of RMB158.439 billion, representing a year-on-year increase of 55.43%.

With respect to its structural financing business, the Company strived to promote the development of two major business segments, namely corporate agency sales products and proprietary non-standardised business, and organised and created high-quality assets based on the needs of high-quality customers and listed companies for various time-based financial management business, supporting services of direct equity financing, credit financing and equity-like financing. During the reporting period, the Company realised structural financing of RMB105.634 billion, representing a year-on-year increase of 270.59%.

With respect to its corporate wealth management business, the Company continued to strengthen the establishment of sales system, actively promoted the segmentation-based operation of customers, utilised the advantages of the linkage between the asset organising and sales, and facilitated the transformation and innovation of corporate wealth management products to achieve efficient matching of different types of high-quality assets and funds with different risk appetites. During the reporting period, the Company achieved sales of corporate wealth management products of RMB2,620.681 billion, representing a year-on-year increase of 18.77%.

With respect to its market transaction business, the Company continued to promote the update and iteration of the "Zhao Tou Xing (招投星)" system and the "Zhao Tou Xing (招投星)" WeChat applet, and leveraged on Fintech to build it into an "external sales platform for all types of assets of investment banks", which realised the release and intelligent matching of investment and financing needs, thus promoting the rapid development of business. During the reporting period, the financing scale of market transactions (matching services) of the Company amounted to RMB218.725 billion, representing a year-on-year increase of 89.21%.

Financial institution business

With respect to its financial institutions asset and liability business, the Company focused on the needs of financial institutions clients, the orientation of market price and the requirements of the Bank's liquidity management to conduct business. During the reporting period, the daily average balance of financial institution deposits of the Company amounted to RMB601.622 billion, representing a year-on-year increase of 18.33%. Among them, the daily average balance of financial institution demand deposits from fund clearing, settlement and depository service amounted to RMB500.259 billion, accounting for 83.15% of the total balance, representing a year-on-year increase of 5.77 percentage points.

With respect to its depository service, the Company's security and future margin depository service was in stable operation, with third-party depository services extending to 103 securities companies and 12,283,900 customers secured at the end of the reporting period. In addition, the Company entered into cooperation with 87 securities companies on margin trading and short selling business, securing 460,100 customers at the end of the reporting period. Also, the Company entered into cooperation with 58 securities companies on stock options business, securing 36,600 customers at the end of the reporting period, and entered into cooperation with 132 future companies on fund transfer, securing 227,800 customers at the end of the reporting period.

With respect to interbank clearing, as at the end of the reporting period, the number of the cross-border RMB accounts opened by banks and other financial institutions with the Company accumulated to 275, ranking first among all small- and medium-sized banks in China (according to the data released by the PBOC). There were 241 customers which participated indirectly through the Company in the RMB Cross-border Interbank Payment System (CIPS), ranking first among all small- and medium-sized banks in China and second in the industry (according to the data released by the CIPS), both representing a rise of one place as compared with the end of the previous year.

With respect to the businesses on interbank online service platform, as at the end of the reporting period, the number of financial institutions registered on the "Zhao Ying Tong (招赢通)" platform of the Company reached 2,778, and during the reporting period, the online business volume amounted to RMB1,107.502 billion, representing a year-on-year increase of 16.60%, among which, the agency sales of third-party products amounted to RMB418.754 billion, representing a year-on-year increase of 98.33%.

Asset management business

As at the end of the reporting period, the balance of wealth management products under management (excluding structured deposits)[10] by CMB Wealth Management, a wholly-owned subsidiary of the Company amounted to RMB2.45 trillion, representing an increase of 11.87% as compared with the end of the previous year. Among them, off-balance sheet wealth management products accounted for 99.97%; the balance of the funds raised from off-balance sheet wealth management products ranked second in the market.

During the reporting period, the Company made great efforts to support all the work of CMB Wealth Management Company Limited, scoring a number of achievements in business transformation, enhancement of risk management and control and other aspects.

10 The balance of wealth management products (excluding structured deposits) is the sum of customers' principal in the on- and off-balance sheet wealth management products and the changes in net value of net-value products as at the end of the reporting period.

Firstly, the Company continued to promote business transformation and development. After making adjustments to the overall arrangements for the transition period of New Regulation on Asset Management, CMB Wealth Management focused on the optimised rectification plan to promote business transformation in a smooth and orderly manner. On the one hand, the Company continued to upgrade, reduce and withdraw old products. On the other hand, the Company expanded the types of new products and accelerated the launch and sales of new products. As at the end of the reporting period, the balance of new products[11] amounted to RMB1.66 trillion, representing an increase of 141.78% as compared with the end of the previous year, accounting for 67.76% of the balance of wealth management products (excluding structured deposits), up by 36.54 percentage points as compared with the end of the previous year.

Secondly, the Company established a stable and comprehensive system for risk management and control. Based on the common practice and net value-based transformation of the asset management industry, the Company comprehensively sorted out and improved the risk management system, formulated the risk appetite of the Company, and regularly evaluated major risk indicators. The Company established a customer credit limit management system and formulated exposure measurement plans for counterparty credit risk. Meanwhile, the Company continued to improve the rating coverage rate of bond-issuers and project entities, and formulated and implemented asset risk grading and pricing plans.

Asset custody business

As at the end of the reporting period, the balance of assets under custody of the Company was RMB16.05 trillion, representing an increase of 21.32% compared to the end of the previous year, and maintained second in the domestic custody industry in terms of scale of custody and ranked first in terms of increment according to the data released by China Banking Association. During the reporting period, the Company realised a custodian fee income of RMB4.215 billion, representing a year-on-year increase of 16.92%. The Company ranked fourth in terms of revenue in the domestic custody industry according to the data released by China Banking Association.

During the reporting period, the Company focused on customers and leveraged on its expertise to upgrade service content, achieving the steady development of its custody business. Firstly, the Company activated the systematic emergency response mechanism during the pandemic, optimised business processes and comprehensively improved its risk management capabilities in custody business to ensure the performance of its duties as the trustee. Secondly, during the reporting period, the scale of custody of mutual fund, insurance and wealth management products of other banks exceeded RMB1 trillion for the first time, among which the number of newly issued mutual fund was 184, representing a year-on-year increase of 49.59%, and the scale of custody amounted to RMB418.2 billion in total, representing a year-on-year increase of 140.48%. The Company ranked first in terms of the custody number and scale of newly issued mutual fund in the industry (WIND public data), while constantly optimising the structure of custody business. Thirdly, in light of the pain points of asset management institutions in investment transactions, middle- and back-office operations and other aspects, we upgraded the service content and launched a personalised "custody plus (託管+)" value-added service system throughout the entire life cycle of asset management products, which consolidated the market position of the Company in the domestic custody industry.

Financial markets business

During the reporting period, the situations of the domestic and foreign economies and financial market were complex and volatile, and the interest rate of the bond market fluctuated drastically. Affected by the domestic pandemic outbreak at the beginning of the year and the subsequent economic recovery, the RMB exchange rate first depreciated and then rose, and the price elasticity further increased. The price of precious metals rose sharply due to the weakening of the US Dollar and its lower real yield.

With respect to RMB bond investment, through in-depth research and analysis of domestic and foreign macro economic situations as well as the monetary and financial policies, the Company anticipated market trends, captured market opportunities, managed and controlled market risks and credit risks. During the reporting period, the Company continued to optimise the asset allocation structure and flexibly adjusted the positions and portfolio duration of RMB bonds investment. In the beginning of 2020 when bond prices were relatively low, the Company concentrated on buying long-duration products, and took the profit and sold the bonds in the first quarter when bond prices were relatively high. Subsequently, the Company conducted range trading operations in the second and third quarter and continued to buy long-duration products in the fourth quarter. While receiving stable yields of the core holding, the Company improved the overall yields the portfolio by receiving yields from the spread of range trading operations. In 2020, the default amount of credit bonds hit a record high. After taking measures such as strengthening access review and post-investment management, the Company successfully avoided many major bond credit risks, and the non-performing rate of proprietary-invested credit bonds was much lower than the average default rate in the bond market. With respect to foreign currency bonds investment, the Company decisively increased its investment in USD bonds of domestic enterprises listing overseas in the first quarter of 2020 based on the judgement of the international economic situation and market trends. Meanwhile, the Company appropriately adjusted the portfolio duration of foreign currency bonds investment to grasp the opportunities arising from fluctuation in the spread of credit bonds, and increased range trading operation to effectively improve portfolio yields.

11 New products are wealth management products in compliance with the relevant provisions of the New Regulation on Asset Management.

With respect to foreign exchange transactions, the Company proactively studied the impact of the pandemic on global macro-economy and focused on the differences between domestic and foreign economic fundamentals and monetary policies to fully grasp the operating characteristics of the global foreign exchange market and the rhythm of the two-way fluctuations in the RMB exchange rate under the pandemic. With various trading instruments as well as flexible trading exposure management and active market-making strategies, the Company achieved satisfactory results in promoting related businesses.

With respect to precious metals trading, the Company predicted the rise of precious metals under the situation of weakened US Dollar and its lower actual yields through in-depth research, comprehensively used multiple trading instruments and trading strategies such as spots and options to grasp the fluctuation of precious metal prices in the market, and actively participated in the relevant market-making transactions in the market to achieve good returns on investment transactions.

With respect to customer transaction business, the Company seized market opportunities in exchange rates, interest rates and precious metal market, actively optimised service of online customer transaction to improve the efficiency and experience of customer transaction, comprehensively used various financial instruments to customise transaction plans for the customers to reduce risks and financing costs, and continued to improve the "CMB Hedging (招銀避險)" service system for wholesale customers. The effect of risk management on customer transaction business was significant, and there were no substantial risks on customer transaction business during the year.

In 2020, the trading volume of RMB exchange rate swaps amounted to USD772.359 billion, representing a year-on-year decrease of 7.19%, which was mainly due to the impact of the pandemic and other factors. In the first half of the year, the Company modestly controlled the transaction scale based on the liquidity of the market. The trading volume of transaction services to the customers amounted to USD529.994 billion, representing a year-on-year increase of 52.92%, of which the trading volume of derivative transaction services to the customers reached USD380.937 billion, representing a year-on-year increase of 80.47%.

3.10.3 Distribution channels

The Company provides products and services via multiple distribution channels. The distribution channels of the Company mainly consist of physical distribution channels and e-banking channels.

Physical distribution channels

The Company mainly focuses on the market in China. The Company's distribution network primarily covers major cities in Mainland China, as well as Hong Kong, New York, London, Singapore, Luxembourg, Sydney and other international financial centers. As at the end of the reporting period, the Company had 142 branches, 1,724 sub-branches, one dedicated branch-level operation center (credit card center), one representative office and 16,559 visual counters in more than 130 cities of Mainland China. The Company also has a branch in Hong Kong; a branch and a representative office in New York, the United States; a branch in London, the UK; a branch in Singapore; a branch in Luxembourg; a representative office in Taipei and a branch in Sydney, Australia.

E-banking channels

Major retail e-banking channels

During the reporting period, the Company constantly improved the retail e-banking channels and further increased operational efficiency. As at the end of the reporting period, the Company's replacement rate of comprehensive service counters through the retail electronic channels was 97.91%; and the rate of rerouting customers from the service counters to visual counters was 94.29%.

CMB APP

During the reporting period, the Company released CMB APP 9.0, innovatively launched the whole-journey companion service for wealth management, released the M+ membership programme and introduced a pan-financial asset perspective to create personal wealth master accounts for hundreds of millions of users. During the fight against the pandemic, CMB APP released ten heart-warming services to quickly respond to the needs of customers for social security, utility payment, livelihood and customer service under physical quarantine. Meanwhile, the Company continued to improve the capabilities of digital middle-office system to facilitate the operation of the Bank in a platform-based, intelligent and intensive manner.

As at the end of the reporting period, the aggregate number of users of CMB APP amounted to 145,000,000. During the reporting period, the maximum number of daily active users of CMB APP reached 16,294,600 and the number of logins to the CMB APP was 6.860 billion in the year, with a monthly average individual logins of 11.98. The number of monthly active users was 61,263,800 as at the end of the period. During the reporting period, CMB APP had 1.803 billion transactions and a total transaction amount of RMB40.91 trillion, up by 6.88% and 23.22% respectively, as compared with the corresponding period of the previous year.

CMB Life APP for credit card

During the reporting period, based on CMB Life APP, the Company steadily promoted the construction of credit card service, financial products, content ecosystem, life with automobile and other scenarios, and continued to strengthen the connection of CMB Life APP with the main business of credit cards as well as with the users and merchants. During the fight against the pandemic, the Company used Fintech to launch the "CMB Anti-pandemic Life Circle (小招喵的抗疫生活圈)" on CMB Life APP to provide customers with intelligent customer service, online repayment, online education and other financial and life services at home. The Company initiated the "Forerunners' Alliance (逾越者聯盟)" through CMB Life APP for the merchants to facilitate the recovery of various consumer sectors such as catering, automobiles and e-commerce, taking concrete actions to overcome difficulties with cooperative merchants. During the routine pandemic prevention and control period, the Company continued to optimise the customer base management system of CMB Life APP to improve the operating capabilities of CMB Life APP through various marketing activities.

As at the end of the reporting period, the aggregate number of users of CMB Life APP amounted to 110,000,000. During the reporting period, the maximum number of daily active users of CMB Life APP reached 8,135,500 and the number of monthly active users was 46,031,700 as at the end of the period. In terms of the number of online activity of users, CMB Life APP continued to outperform other credit card APPs in the banking industry.

Network operation service

The Company's Network Operation Service Center provides instant, comprehensive, prompt and professional services to its customers through caring methods such as telephone, network and video.

In 2020, the Company constantly improved its service capability and customer experience. The manual telephone access ratio reached 98.40%, the percentage of manual telephone responses within 20 seconds reached 95.42% and the satisfaction ratio of its telephone customer service reached 99.73%.

The Company actively improved its online contactless service capabilities to comply with the trend of its customers increasingly moving to the internet after the outbreak of the pandemic. During the reporting period, our online interactive services accounted for 90.23%[12], demonstrating that online text interaction has become the main force in remote consulting services. At the same time, the Company continued to accelerate the development of intelligent services, strengthen the construction of online service scenarios, further deepen the training and learning of intelligent robots and enhance algorithm optimisation with Fintech. During the reporting period, our intelligent self-services accounted for 77.23%[13]. During the reporting period, our visual counters received an average of 1,954,100 incoming calls per month, with the highest number of single day incoming calls reaching 117,600, showing high replacement effect of in-branch non-cash transactions.

[12] Referring to the proportion of online text services in various types of remote consulting services.

[13] Referring to the proportion of services undertaken by intelligent robots in various remote consulting services.

Smart service system

The Company continued to optimise its smart service network with the two major Apps, being "CMB APP" and "CMB Life APP" as the core, covering Network Operation Service Center and visual counters at our outlets. During the reporting period, the Company further enhanced the AI service and closed-loop service capabilities of "Financial Advisor Xiao Zhao (小招理財顧問)", the smart customer service assistant of CMB APP and "Assistant Xiao Zhao (小招助理)", the smart customer service assistant of CMB Life APP, accelerated the "scenario-based transformation" of the service ecosystem and continued to develop smart service products for our customers. Meanwhile, with third-party channels such as WeChat official account, Alipay service window and official QQ account as the important channels for brand promotion and business promotion, the Company enhanced its capabilities of online service with minimal service requirements such as smart customer service and message reminders to form an organic service ecosystem with strong connections with its own smart service network. Thus, the smart service system has been improved. As at the end of the reporting period, the Company gained a total of 25.9426 million fans through the "China Merchants Bank" WeChat Official Account and a total of 163 million fans through third-party credit card channels (mainly from WeChat, Alipay service window and official QQ account).

Major wholesale e-banking channels

Online corporate banking

Affected by the pandemic, the demand for online service from corporate customers has increased. The Company actively built online service capabilities with online corporate banking and accelerated the online migration of high-frequency business based on user journeys. As at the end of the reporting period, the Company completed the online migration of the whole process of 41 corporate products, applied the self-service application function via electronic channels to 91.05% of corporate products, and promoted the online migration of 10 high-frequency counter businesses. As at the end of the reporting period, the number of online corporate banking customers of the Company reached 2,125,900, representing an increase of 8.78% as compared with the end of the previous year, of which the number of monthly active customers was 1,169,900, representing an increase of 16.55% as compared with the end of the previous year. The total number of online corporate banking transactions of the Company reached 248,521,300 and total value of transactions amounted to RMB126.00 trillion during the reporting period.

CMB Corporate APP

The Company explored ways to create personalised scenario model via digital channels, and launched the new "Corporate Legal Person" version of CMB Corporate APP. The Company continued to expand the online high-frequency transaction scenarios for corporate customers, and set up special features of Head Office, such as commerce, bills and wealth management on CMB Corporate APP, which effectively improved customer experience and activeness. The Company actively fulfilled its social responsibilities by setting up a special feature for pandemic prevention and work resumption on CMB Corporate APP, and providing the corporate customers of the Company with online toolkits for pandemic prevention and control service and a special channel for "charitable donations" from corporate customers. As at the end of the reporting period, the number of customers of CMB Corporate APP reached 1,295,100, representing an increase of 29.41% as compared with the end of the previous year, of which monthly active customers reached 540,300, representing an increase of 26.68% as compared with the end of the previous year. During the reporting period, the number of transactions made by customers through CMB Corporate APP amounted to 16,171,800, with a transaction value of RMB340.645 billion.

3.10.4 IT and R&D

During the reporting period, the Company promoted the development of capabilities of Fintech infrastructure, accelerated the transformation of the "cloud + middle-office" architecture, promoted the cloud migration of applications and systems for the whole Bank and subsidiaries, and constructed enterprise-level data middle-office and technology middle-office to support internal and external partners. The Company developed R&D capabilities for core AI technology to support the business scenarios in the Bank and offer Fintech service to customers, and jointly built joint AI laboratories with leading universities to promote the incubation of technology industries and the transformation of scientific and technological achievements. The Company continued to develop the field of blockchain, built a blockchain platform, actively facilitated business, and maintained the leading position in the industry.

With respect to the development of application systems, the total number of application systems developed continued to increase and the delivery duration was shortened, which significantly promoted the rapid development, innovation and transformation of business. With respect to retail banking, the Company released CMB APP 9.0, introduced new features such as live streaming and video news on the App to create basic audio and video capabilities, enriched the pan-financial ecosphere, and focused on meal coupons, movie tickets, travel, convenience services and local featured scenarios of branches to provide users with comprehensive and convenient life services. The Company continued to develop key wealth management products, improved the customer service system for wealth management, and built a new system for overseas wealth management. The Company also focused on the construction of "Sui Dai Tong (隨貸通)", an online operation platform designed to assist relationship managers in loan marketing and "CMB Zhao Dai (招貸)" APP, a loan platform for micro-finance loans to strengthen the proactive acquisition of customers. With respect to wholesale banking, the Company made efforts in enterprise digital services, and launched the "Xin Fu Tong (薪福通)" 2.0 to provide enterprises with digital salary and benefits management services, helping small- and medium-sized enterprises to improve operating efficiency through digitalised transformation. The Company launched the customer relationship management system (CRM) 4.0 to support corporate customer service and the management of relationship managers from three aspects including digital, platform and intelligence. Meanwhile, the Company promoted the online migration of high-frequency business, which shortened the duration for opening an account for corporate customers from 10 days to 3 days and the average duration for granting loans on "Shang Piao Yun Shan Tie (商票雲閃貼)" to 1-3 minutes. The Company also launched "Zhi Zhang Piao Ju (指掌票據)" product on CMB Corporate APP, leading the bill service into the mobile era, and built a "Custody Plus (託管+)" value-added service system to support its strategic customers while facilitating the rapid innovation in custody business. With respect to middle- and back-office, the Company constructed a new platform for collaborative office to provide support for work collaboration and remote office during the pandemic.

With respect to overseas support, the Head Office continued to coordinate the management and maintenance of the core business system of overseas branches, and released the standard versions of overseas core system, overseas online corporate banking system and overseas private banking system to promote the standardisation of overseas systems. At the same time, the Company formulated the IT construction plan of CMB Wing Lung Bank after in-depth investigations and surveys, so as to improve the IT construction level of overseas subsidiaries.

With respect to business continuity, based on the basic principles of "secure and controllable, value creation and cost-effective", the Company realised stable operation of the overall system during the process of accelerating the transformation from traditional data center to financial cloud data center, and the availability of core accounting system and backbone networks remained its leading position among industry peers. The business development of the whole Bank is supported by three software centers in Shenzhen, Hangzhou and Chengdu and two data centers in Shenzhen and Shanghai through technology empowerment.

3.10.5 Overseas branches

Hong Kong Branch

Established in 2002, the Hong Kong Branch is the first branch duly established overseas by the Company. As a full-licensed bank and a registered institution with the Securities and Futures Commission, the Hong Kong Branch may engage in comprehensive commercial banking businesses, including wholesale banking and personal banking. With regard to wholesale banking, the Hong Kong Branch provides enterprises located in Hong Kong with diversified corporate banking products and services, such as deposits, settlement, trade financing, bilateral loans, syndicated loans, cross-border M&A portfolio solutions, asset management and asset custody, and engages in transaction of funds, bond trading and foreign exchange trading with financial institutions, and conducts funds clearing and asset transfer with financial institution customers. With respect to personal banking, the Hong Kong Branch proactively develops featured personal banking services and provides cross-border personal banking services and private wealth management services for individual customers in Hong Kong and Mainland China. Featured products include "Hong Kong All-in-one Card" and "Hong Kong Bank-Securities Express".

In 2020, the Hong Kong Branch focused on the opportunities such as "The Belt and Road" Initiative, RMB internationalisation and the construction of Guangdong-Hong Kong-Macao Greater Bay Area, putting its best effort to promote cross-border business coordination, continuously developed the local customer base, constantly expanded its market share, and provided customers with comprehensive financial support. Meanwhile, the Hong Kong Branch further strengthened risk compliance and internal basis management, constantly improved and innovated its product and service systems to further explore the asset operation model. As a result, all its businesses achieved stable development. During the reporting period, the Hong Kong Branch realised a net operating income of HK$2.116 billion and a profit before tax of HK$1.537 billion.

New York Branch

Established in 2008, the New York Branch of the Company is the first branch of Chinese banks approved in the U.S. since the US Foreign Bank Supervision Enhancement Act in 1991. The New York Branch is located in the global financial center and is committed to establishing a cross-border financial platform characterised by coordination between China and the U.S., so as to offer diversified and all-round banking services for the companies and high-net-value private banking customers in China and the U.S..

In 2020, our New York Branch adhered to the principle of "taking compliance as a priority and maintaining steady operation" and aimed to improve the comprehensive service capabilities of the featured cross-border financial platform. Great progress has been made in exploring the potential of cross-border business between China and the United States, strengthening customer service, strengthening compliance construction and comprehensive risk management, and improving the level of informatisation. During the reporting period, our New York Branch realised a net operating income of USD73,833,600 and a profit before tax of USD38,161,800.

Singapore Branch

Established in 2013, the Singapore Branch of the Company is positioned as a significant cross-border financial platform in Southeast Asia. Based in Singapore and expanding to Southeast Asia, the Singapore Branch, which focusing on two major businesses, namely cross-border finance and wealth management, strives to provide all-round non-stop solutions for cross-border finance to the Chinese companies "going global" and the companies "brought in" located in Singapore and other Southeast Asian countries. Its major services and products include: funds settlement, deposit service, foreign exchange trading, coordination financing, trade financing, M&A loans, syndicated loans, real estate trust leveraged financing and delisting financing. In terms of wealth management business, with the Private Banking (Singapore) Center was officially launched in April 2017 to provide private banking products and value-added services with integrated investment and financing solutions, such as cash management, asset allocation and heritage of wealth to high-net-value customers.

In 2020, the Singapore Branch adhered to the operating strategy of concurrent development of cross-border financing business and local business, focused on the strategic customers of the Head Office and branches and quality government-linked enterprises located in Singapore, returning to its origin of customer service. By providing premium corporate services, the Singapore Branch has implemented its first non-major currency payment service, making it to be the issuer to issue USD400 million senior bonds for the first time. Strengthening the customer base of directors, supervisors and senior executives of PRC companies listed in Singapore, it continued to carry out linkage between corporate and personal businesses and successfully launched the first family office business. During the reporting period, the Singapore Branch realised a net operating income of USD18,247,700 and a profit before tax of USD7,959,700.

Luxembourg Branch

Established in 2015, the Luxembourg Branch of the Company is positioned as an important cross-border financial platform in European continent. It provides diversified services including corporate deposits, corporate loans, project financing, trade financing, M&A financing, M&A advisory, bond underwriting and asset management for the Chinese enterprises "going global" and the enterprises "brought in" from Europe. It is committed to establishing an operational platform of the Company in Europe on the basis of the superior businesses of the parent bank combined with the special advantages of Europe.

In 2020, the Luxembourg Branch strived to overcome the impact brought about by the pandemic, took the initiatives to seek business breakthroughs and attain new business growth so as to open up new investment and financing channels, all in an effort to achieve an increase in revenue and reduction in cost. During the reporting period, our Luxembourg Branch realised a net operating income of €14,243,500 and a loss before tax of €4,893,200, mainly due to the high allowances.

London Branch

Established in 2016, the London Branch of the Company is the first branch approved to be established in the United Kingdom among all the PRC joint-stock commercial banks and also the first branch established in the United Kingdom directly by a bank in Mainland China since the founding of the PRC. It currently conducts corporate banking business and private banking business. With respect to corporate banking business, it provides customers with diversified corporate banking products and services, such as deposits, loans (including bilateral loans, syndicated loans and cross-border M&A financing) and trade finance products, such as making payments on behalf of customers (代付) and forfeiting (福費廷). It also engages in interbank transaction of funds, bonds and foreign exchange trading, and conducts funds clearing and asset transfer with other financial institution customers. The private banking business currently provides basic services such as settlement, fixed deposit, foreign exchange transactions, mortgage loans and insurance referrals to meet the needs of our high-net-value customers for cross-border business and value-added services.

In 2020, adhering to the business philosophy of steady development and extensively exploring cross-border business opportunities arising from China and the UK, the London Branch was committed to returning to its origin of customer service. Focusing on the two-tier strategic customers of "going-global"and "brought-in "for the Head Office and branches, the London Branch strived to build a comprehensive customer service and operating system, while at the same time putting in its effort to the compliance development of private banking business on a gradual basis to meet the needs of high-net-worth customers for cross-border business and value-added services, which has made a robust kick-off. During the reporting period, the London Branch achieved a net operating income of USD20,968,600 and a profit before tax of USD5,581,500.

Sydney Branch

Established in 2017, the Sydney Branch of the Company is the first branch approved to be established in Australia among all the PRC joint-stock commercial banks. It proactively participates in Sino-Australian cross-border investment and financing services, trade financing and settlement, exploitation of mineral resources and the development of quality infrastructure projects, and provides supporting services for "going-global" customers to lay out in Australia and New Zealand and for "brought-in" foreign leading enterprises to develop in China. At the same time, it steadily carried out private banking business in compliance with laws and regulations, and met the private banking customers' needs for global service and the cross-border non-financial value-added service. The establishment of the Sydney Branch further expanded and improved the Company's global presence, forming a global service network across four continents: Asia, Europe, America and Australia.

In 2020, faced with a complex business environment, the Sydney Branch, nevertheless, adhered to the strategy of "laying the foundation to make a difference", overcame the difficulties with joint efforts, and continuously improved its professional capabilities along the strategic customers of the Head Office and local leading companies, thereby, achieving stable business development. During the reporting period, the Sydney Branch achieved a net operating income of AUD21,727,600 and a profit before tax of AUD6,846,400.

3.10.6 CMB Wing Lung Group

Founded in 1933, CMB Wing Lung Bank has a registered capital of HK$1.161 billion, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of CMB Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, private banking and wealth management, investment, securities, credit cards, NET banking, "CMB WLB Wintech (招商永隆銀行一點通)" mobile banking, global cash management, syndicated loans, corporate financing, documentary bills, leasing and hire purchase loans, foreign exchange, insurance agency, mandatory provident fund, insurance brokerage and general insurance underwriting, property management and trustee, nominee and asset management services. At present, CMB Wing Lung Bank has one head office, 33 branches and private banking centers in Hong Kong, four branches and sub-branches in Mainland China, one branch in Macau, and one branch located respectively in Los Angeles and San Francisco, the United States.

During the reporting period, CMB Wing Lung Group realised an attributable profit to shareholders of HK$2.872 billion and a net operating income of HK$6.005 billion, of which net interest income was HK$3.858 billion and net non-interest income was HK$2.147 billion. The cost-to-income ratio was 42.18%.

As at the end of the reporting period, the total assets of CMB Wing Lung Group amounted to HK$380.027 billion. Total equity attributable to shareholders amounted to HK$42.124 billion. Total loans and advances to customers (including trade bills) amounted to HK$194.335 billion. Deposits from customers amounted to HK$270.122 billion. The loan-to-deposit ratio was 67.09%. The non-performing loan ratio (including trade bills) was 0.48%.

For detailed financial information on CMB Wing Lung Group, please refer to the 2020 annual results of CMB Wing Lung Bank, which is published on the website of CMB Wing Lung Bank (www.cmbwinglungbank.com).

3.10.7 CMB Financial Leasing

CMB Financial Leasing is one of the five pilot bank-affiliated financial leasing firms approved by the State Council. It was established in 2008 and wholly owned by the Company with a registered capital of RMB6.0 billion. CMB Financial Leasing has adhered to its operation and development strategy of "professionalisation, digitalisation and internationalisation", carried out the mission of "supporting national strategy, serving the real economy and promoting industrial upgrading", and launched the financial solutions for the ten industries of aviation, shipping, energy, infrastructure, equipment manufacturing, environment, health industry and cultural tourism, public transportation, smart interconnection & logistics and leasing. It satisfies the lessees' different needs in respect of equipment procurement, sales promotion, asset revitalisation, balancing of tax liabilities and improvement of financial structure.

As at the end of the reporting period, the total assets of CMB Financial Leasing amounted to RMB192.201 billion, and its net assets amounted to RMB22.618 billion. It realised a net profit of RMB2.509 billion during the reporting period.

3.10.8 CMB International Capital

Established in 1993, CMB International Capital is a wholly-owned subsidiary of the Company in Hong Kong, with a registered capital of HK$4.129 billion. At present, the business scope of CMB International Capital and its subsidiaries mainly covers corporate finance, asset management, wealth management, stocks and structured finance.

As at the end of the reporting period, the total assets of CMB International Capital amounted to HK$43.714 billion, and its net assets amounted to HK$10.278 billion. During the reporting period, it realised a net profit of HK$1.512 billion.

3.10.9 CMB Wealth Management

CMB Wealth Management was established and wholly owned by the Company with a registered capital of RMB5.0 billion, and was officially launched in November 2019.

CMB Wealth Management is based in the headquarter in Shenzhen. It upholds the values of "professionalism, conscientiousness, innovation, and coordination" and the brand appeal of "providing better answers to the future", and is committed to gradually establish an all-round asset management business model which focuses on fixed income investments with equity and alternative asset investments as the supplements, and provides customers with cross-market, multi-category wealth management product portfolios and asset management service options, so as to meet their diversified needs for asset management and their needs in preserving and increasing their wealth.

As at the end of the reporting period, the total assets of CMB Wealth Management amounted to RMB8.061 billion, and its net assets amounted to RMB7.474 billion. During the reporting period, it realised an operating income of RMB3.772 billion, of which RMB3.464 billion of management fee income was obtained from the management of products entrusted by CMB, accounting for 91.83%. It realised a net profit of RMB2.453 billion.

3.10.10 China Merchants Fund

Established in 2002, China Merchants Fund had a registered capital of RMB1.31 billion. As at the end of the reporting period, the Company held 55% of China Merchants Fund's shares. The business scope of China Merchants Fund covers fund establishment, fund management and other operations approved by the CSRC.

As at the end of the reporting period, the total assets of China Merchants Fund amounted to RMB8.237 billion, and its net assets amounted to RMB5.906 billion. The total size of the asset management business (including China Merchants Fund and its subsidiaries) amounted to RMB1,156.825 billion. It realised a net profit of RMB904 million during the reporting period.

3.10.11 CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance, a joint venture of the Company, was established in Shenzhen in 2003, and it is the first Sino-foreign joint venture life insurance company established after China's entry into the World Trade Organisation (WTO), with a registered capital of RMB2.8 billion. As at the end of the reporting period, the Company held 50% of CIGNA & CMB Life Insurance's shares. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at the end of the reporting period, the total assets of CIGNA & CMB Life Insurance amounted to RMB75.196 billion, and its net assets amounted to RMB9.937 billion. During the reporting period, CIGNA & CMB Life Insurance realised a net profit of RMB1.638 billion.

3.10.12 Merchants Union Consumer Finance

Merchants Union Consumer Finance, a joint venture of the Company, was established in Shenzhen in 2015, and it is the first consumer finance company in China established under the framework of the Closer Economic Partnership Arrangement (CEPA), with a registered capital of RMB3.869 billion. As at the end of the reporting period, the Company and its wholly-owned subsidiary, CMB Wing Lung Bank, jointly hold 50% of equity interest in Merchants Union Consumer Finance. Merchants Union Consumer Finance is mainly engaged in the granting of personal consumer loans.

As at the end of the reporting period, the total assets of Merchants Union Consumer Finance amounted to RMB108.881 billion and the net assets were RMB11.023 billion. It realised a net profit of RMB1.663 billion during the reporting period. As at the end of the reporting period, Merchants Union Consumer Finance ranked first among the licensed consumer finance companies in terms of the volume of loans, and its asset quality was better than the average level of other licensed consumer finance companies.

3.11 Risk Management

The Company stepped up the construction of a risk management system focusing on risk-adjusted value creation under the principles of "Comprehensive, Professional, Independent and Balanced Management". The Risk and Compliance Management Committee of the Head Office is responsible for reviewing and determining the most significant bank-wide risk management policies on risk preferences, strategies, policies and authorisations approved by the Board of Directors.

During the reporting period, in the face of the pandemic and the complex and challenging economic environment at home and abroad and the increasing risk in bank operations, the Company continued to improve its overall risk management system while proactively overcoming and preventing all kinds of risk.

3.11.1 Credit risk management

Credit risk refers to the risk arising from a bank's borrowers or counterparties failing to perform its obligations as agreed. Adhering to its management philosophy of "Quality Goes First Based on Compliance and Risk Control (合規為根、風險為本、質量為先)", and with the goal of "fostering a leading risk management bank", the Company promoted the risk management culture of "staying healthy, rational, proactive and comprehensive (穩健、理性、主動、全員)", stuck to the concept of balanced returns and risks and the prudent business strategy in which risks can ultimately be covered by capital, implemented a unified credit risk preference, optimised the life-cycle credit risk management processes, improved credit risk management tools, and fully improved risk management capabilities, so as to prevent and reduce credit risk loss.

During the reporting period, the Company strengthened the forecast of macroeconomic and financial situation, overall planning, key breakthroughs, multiple measures, the tackling of both the problem and its cause, as a result of which asset quality was effectively controlled. The first was to focus on customers and deepen the integrated management of high-quality customers by dynamically adjusting the two-level strategic customers and customers on the whitelist at Head Office and branches. The Company implemented customer list management to build on the foundation of customer base, strengthened risk management in key areas such as real estate and government and encouraged credit placement for strategic and emerging and advanced manufacturing industries. The second was to embrace openness and cooperation, to stay ahead and uplift the level of risk management. Expanding the coverage of new kinetic energy industry policies, the Company have formulated and promulgated a total of 48 new kinetic energy industry credit policies. Intensifying regional policy research, the Company formulated targeted credit policies for the Guangdong-Hong Kong-Macao Greater Bay Area and Yangtze River Delta sub-industries. Upgrading industry research of "Self-Organisation", the Company forged a team of experts to deepen the application of research results. The third was to eliminate illiteracy and make up for the shortcomings, consolidated the foundation, and improved the comprehensive risk management system. Establishing and improving the risk management and control mechanism of peers and cooperative institutions, the Company attached great importance to the management of risk chaos, organise special management of "low credit risk", continued to clean up the P2P platform, conducted comprehensive inspections and regular monitoring of key risk areas, and improved risk consolidation management. The fourth was to take multiple measures and implemented flexible policies to improve the efficiency of non-performing asset disposal. The Company intensified the recovery of non-performing assets by cash collection while continuously promoting the write-off of non-performing assets and securitisation of assets. The Company proactively explored debt-to-equity conversion, made use of a number of methods to mitigate risk assets and achieved the effective and efficient disposal of non-performing assets based on compliance regulations. The fifth was to embrace technology, strengthen empowerment, and deepen the digital transformation of risk management. Launching the online credit cloud platform, the Company improved the risk management toolkit, strengthened data quality management, opened up system linkages, expanded the application scenarios of the online risk control platform, in an effort to continue to improve the quality and efficiency of risk management.

For more information about the Company's credit risk management, please refer to Note 60(a) to the financial statements.

3.11.2 Management of large-scale risk exposure

In accordance with the "Management Measures for Large-Scale Risk Exposure of Commercial Banks" (CBIRC Order 2018 No. 1) (《商業銀行大額風險暴露管理辦法》(銀保監會2018年1號令)) issued by the CBIRC, large-scale risk exposure refers to the credit risk exposure (including various credit risk exposures in the banking book and trading book) to a single customer or a group of related customers of a commercial bank that exceeds 2.5% of its net Tier 1 capital. The Company has incorporated large-scale risk exposure management into its overall risk management system, continued to optimise customer credit management requirements, streamlined risk exposure measurement rules, dynamically monitored changes in large-scale risk exposures and reported major changes and management matters to the Board, so as to effectively controlled customer concentration risks. As at the end of the reporting period, other than customers with regulatory exemption, single non-financial institution customers, group non-financial institution customers, single financial institution customers and group financial institution customers of the Company that reached the standards of large-scale risk exposure were all in compliance with the regulatory requirements.

3.11.3 Country risk management

Country risks represent the risks of economic, political and social changes or developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to fulfil their obligations to banks, or incur loss to commercial presences of the Company in that country or region, or other loss to the Company in that country or region. Country risk may arise from deteriorating economic conditions, political and social upheavals, nationalisation or expropriation of assets, and government repudiation of external indebtedness, foreign exchange controls and currency depreciation in a country or region.

The Company strictly implemented relevant regulatory requirements and followed the principles of soundness and prudence, established a country risk management system compatible with strategic objectives, risk profile and complexity, and incorporated country risk management into its overall risk management system so as to promptly identify, measure, evaluate, monitor, report, control and mitigate country risks, assess the country risk ratings in a regular manner and implement limit management, while guiding business to tilt in favour of low-risk countries. Major matters involving country risk management policies and adjustment of limit plans were submitted to the Board for consideration and approval. In 2020, under the background of spreading pandemic overseas and constant international trade frictions, risks in some countries and regions have increased. Therefore, the Company strengthened risk monitoring and management in priority countries, dynamically updated country risk ratings based on risk changes, and strictly restricted business growth in high-risk countries. As at the end of the reporting period, the Company has made adequate allowances for country risks in accordance with the regulatory requirements. As a result, the country risks will not have a material effect on the operations of the Company.

3.11.4 Market risk management

The Company's market risk arises from trading book and banking book, and the interest rate risk and exchange rate risk are the major market risks faced by the Company.

Interest rate risk management

Trading book

The Company uses volume indicators, market risk value indicators (VaR, covering interest rate risk factors of various currencies and durations relating to trading book business), interest rate stress testing loss indicators, interest-rate-sensitive indicators and accumulative loss indicators, to measure, monitor and manage the interest rate risk of trading book. The interest rate risk factors used for risk measurement cover all businesses under the trading book, and are comprised of around 140 interest rate indicators or bond yield curves. VaR includes general VaR and stressed VaR, which are both calculated using the historical simulation method and adopt a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. The interest rate stress testing scenarios include the parallel move, steep move and twisted change of interest rates at various degrees and various unfavorable market scenarios designed on the characteristics of investment portfolios. Among which, the extreme interest rate scenario may move up to 300 basis points and cover the extremely unfavorable conditions of the market. Major interest rate sensibility indicator reflects the duration of bonds and the change in the market value of bonds and interest rate derivatives PV01 (when an interest rate fluctuates unfavorably by 1 basis point). As for daily risk management, the annual scope of authorisation and the market risk limits for the interest rate risk businesses under the trading book are set in accordance with the risk appetite, operation plan and risk prediction of the Board of Directors at the beginning of the year for which the Market Risk Management Department is responsible for daily monitoring and continuous reporting.

In 2020, the pandemic triggered a turmoil to the global economic environment. Due to differences in pandemic control capabilities and effectiveness, domestic and foreign interest rate markets were significantly at odds. The RMB interest rate showed a V-shaped reversal throughout the year. As of the end of the reporting period, the 1-year treasury bonds interest rate rose by 11 basis points from the end of the previous year to 2.47%, and the 10-year treasury bonds interest rate rose by 1 basis point to 3.14% from the end of the previous year. The US dollar interest rate was close to the historical low point of zero interest rate. As of the end of the reporting period, the interest rate of the US 1-year treasury bonds fell by 149 basis points from the end of the previous year to 0.10%, and the interest rate of the 10-year treasury bonds fell by 99 basis points from the end of the previous year to 0.93%.

The investment scope of the trading book of the Company focused on RMB bonds. In general, prudent investment management strategies were adopted by the Company and the risk exposure was dynamically adjusted by means of bond trading, derivative hedging, etc., and all interest rate risk indicators of the trading account were maintained within the target range according to changes in the market.

Banking book

The Company mainly adopts the re-pricing gap analysis, duration analysis, benchmark-correlated analysis, scenario simulation and other methods to measure and analyse the interest rate risk of banking book on a monthly basis. The re-pricing gap analysis mainly monitors the distribution of re-pricing duration and mismatch of assets and liabilities; the duration analysis monitors the duration of major product types and the change in the duration gap of assets and liabilities of the whole Bank; the benchmark-correlated analysis assesses the benchmark risk existing between different pricing benchmark interest rate curves, as well as between the different duration points on each of such curves based on the benchmark-correlated coefficients calculated using our internal models; the scenario simulation is the major approach for the Company to conduct interest rate risk analysis and measurement, which comprises a number of ordinary scenarios and stress scenarios, including the interest rate benchmark impact, the parallel move and the change in the shape of yield curves, the extreme changes in interest rates in history, and the most possible changes in interest rates in the future as judged by experts and other scenarios. The net interest income (NII) for the future one year and the changes in economic value (EVE) indicator are calculated through simulation of the scenario of changes in interest rates. The NII fluctuation ratio and the EVE fluctuation ratio of certain scenarios are included into the interest rate risk limit system of the whole Bank. In addition, the internal limit indicator system is included into the standardised measurement indicators set out in the Guidelines on the Management of Interest Rate Risk of Banking Book of Commercial Banks (Revised) issued by the CBIRC.

During the reporting period, the Company adhered to the principle of neutral and prudent interest rate risk appetite, paid close attention to changes in the external environment and internal interest rate risk exposure structure, made prediction and analysis of the trend of credit and market interest rates based on the macro quantitative model, and flexibly adjusted the active management strategy for interest rate risk. The Company, through the adjustments to the structure of on-balance sheet assets and liabilities and off-balance sheet interest rate derivatives, hedged against the rise in interest rate risk as a result of the switch of existing loan interest rates and the decline in LPR. As at the end of the reporting period, various on- and off-balance sheet management measures were implemented as scheduled, and the interest rate risks were under control within the annual interest rate risk management and control target range of the Company. The results of stress test also showed that various indicators still stayed within the limits and pre-warning values of the Company, and the interest rate risk of the banking book was generally controllable.

For more information about the Company's market risk management, please refer to Note 60(b) to the financial statements.

Exchange rate risk management

Trading book

The Company uses risk exposure indicator, market risk value indicator (VaR, covering foreign exchange rate risk factors of various currencies related to transactions on the trading book), the exchange loss indicator under stress test, option-sensitive indicator and accumulated loss indicator to conduct risk measurement and monitoring management. As for risk measurement, the selected exchange rate risk factor is applied on spot prices, forward prices and volatilities in all transaction currencies under the trading book. Market value risk indicators comprise general market value at risk and stress market value at risk, and are calculated using historical simulation based on a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. Exchange rate stress test scenarios cover 5%, 10%, 15% or more adverse changes in every transaction currency against RMB, and changed volatility of foreign exchange options. Major exchange-sensitive indicators include Delta, Gamma, Vega and other indicators. For daily management, we set annual limits on authority associated with exchange rate risks under the trading book and relevant market exposure at the beginning of the year according to the risk appetite, business planning and risk forecast of the Board of Directors, and delegated the Market Risk Management Department to perform daily monitoring and on-going reporting.

In the first half of 2020, the economies at home and abroad were battered due to the impact of the pandemic. The RMB exchange rate weakened slightly from the economies turmoil. The exchange rate of the USD against the RMB rose by 1.55% to 7.07 in the first half of the year. In the second half of the year, the United States and other countries rolled out a series of loose monetary policies in response to the pandemic, which has accelerated the decline of the US dollar. The domestic pandemic prevention and control measures held up well, leading the world's major economies in terms of economic recovery, with the continuous appreciation of RMB. From the perspective of the whole year, the exchange rate of the USD against the RMB dropped by 6.12% to 6.54. The two-way fluctuation of the RMB exchange rate became more observable, with the flexibility on the rise.

Under this background, the Company mainly obtained spread income through foreign exchange trading business on behalf of customers, utilised system to dynamically monitor the exposure of proprietary trading and strengthened the monitoring of changes in the value of limit indicators such as sensitivity index and stop-loss. All exchange rate risk indicators of trading book of the Company were within the target range.

Banking book

The data for measurement of exchange rate risk of banking book of the Company was derived mainly from database, and the Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, and other methods for measurement and analysis. The foreign exchange exposure measurement uses the short-sided method, the correlation approach and the aggregation approach; scenario simulation and stress test analysis are two important exchange rate risk management tools of the Company for managing foreign exchange rate risk in respect of fluctuation of all currency exchange rates, including the standard scenario, historical scenario, forward scenario and stress scenario. Based on scenarios such as forward exchange rate fluctuation and historical extreme fluctuations, each scenario could simulate the impact on the Company's profit or loss. The effects of certain scenarios on the profit and loss and its percentage to net capital as a limit indicator are taken as reference in the daily management. The Company conducts back-testing and assessment on relevant model parameters on a regular basis to verify the effectiveness of measurement models.

The Company regularly measures and analyses foreign exchange exposure of banking book and scenario simulation results, monitors and reports exchange rate risk on a monthly basis under its quota limit framework, and adjusts its foreign exchange exposure accordingly based on the trend of foreign exchange movements, so as to mitigate the relevant foreign exchange risk of banking book. The Audit Department of the Company is responsible for overall auditing of our exchange rate risk.

During the reporting period, the Company paid close attention to exchange rate movements, took initiative to analyse the impact of exchange rate changes in light of the macro economic conditions at home and abroad, and proposed a balance sheet optimisation program as a scientific reference for the management's decision-making. In 2020, the RMB exchange rate experienced a vehement two-way fluctuation. The Company increased its efforts to monitor and analyse of foreign exchange exposure and imposed a stringent control over the scale of foreign exchange risk exposure. The Company was prudent about the exchange rate risk. As of the end of the reporting period, the size of the banking book of the Company's foreign exchange exposure was at a relatively low level. The exchange rate risk of the Company is generally stable with all the core limit indicators, general scenarios and stress testing results satisfying the regulatory limit requirement.

For more information about the Company's market risk management, please refer to Note 60(b) to the financial statements.

3.11.5 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or failed internal procedures, incompetent personnel or IT systems, or external events. In view of the various aspects and wide range of operational risks, the Company's operational risk management will, based on the principles of cost-revenue matching and input-output balance, vigorously strengthen the establishment of operational risk management system, implement internal control system, continue to carry out various businesses steadily and reduce or prevent operational risk losses with a certain level of cost. In the process of operational risk management, within the risk limits set by the Board of Directors, the Company will, through measures such as further improving the risk management mechanism, strengthening risk prevention and control in key areas, conducting risk monitoring and pre-warning, improving assessment and evaluation mechanism, and cultivating operational risk prevention culture, so as to further improve operational risk management capabilities and effectiveness, and prevent and reduce operational risk losses.

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company continued to improve its operational risk management system. The first was to establish a cooperative business risk management and control mechanism, formulate cooperative business risk management measures, continue to update the list of cooperative business varieties, and promote the integration of cooperative business into a unified view of risks; the second was to strengthen risk prevention and control in key areas, and continue to carry out business and cooperation on P2P platform business and cooperative business, stakeholder business, and low-credit risk business; the third was to optimise and improve management tools, carry out review of key risk indicators, review and adjust indicators in various dimensions, and further optimise the evaluation mechanism of operational risk and the economics of operational risk capital allocation plan; the fourth was to strengthen outsourcing risk management, strictly review outsourcing products, strengthen access management, organise the Bank to carry out outsourcing risk investigation and post-outsourcing project evaluation; the fifth was to strengthen IT risk and business continuity management, and conduct IT process review; the sixth was to further improve the performance of the operational risk management system, and to promote the use of operational risk data analysis platforms; the seventh was to increase the empowerment of subsidiaries and branches, and carry out various forms of training for the operational risk management personnel of domestic and foreign branches and subsidiaries so as to improve operational risk management skills.

3.11.6 Liquidity risk management

Liquidity risk refers to the risk that the Company's unable to obtain sufficient funds at a reasonable cost in a timely manner to grow its assets, pay maturing debts and perform other payment obligations. The liquidity risk management of the Company is based on the principles of prudence, foresight and comprehensiveness, which is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company have basically satisfied the regulatory requirements and its own management needs.

Based on the principle of separating policy-making, strategy implementation and supervision of liquidity risk management, the Company puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, the Risk and Capital Management Committee, the Board of Supervisors, senior management, designated committees and relevant departments are segregated to ensure the effectiveness of liquidity risk management.

In 2020, the Central Bank maintained a prudent monetary policy and reasonably stable liquidity. In response to the market environment and the liquidity profile of the Company, the Company implemented the following measures to enhance liquidity management. Firstly, the Company continued to promote the growth of deposits from customers and strengthened the control of key timings through measures such as strengthening the guiding of marketing strategies for key customer groups, promoted the steady growth of deposits through various measures and guided the further decrease of liabilities and costs. Secondly, the Company continuously optimised the asset structure, dynamically controlled the exposure of credit assets and realised the stable operation of assets and liabilities. Thirdly, the Company carried out active liability management through multiple channels, expanded diversified financing channels, strengthened cooperation with counterparties, and improved treasury financing capabilities. Fourthly, the Company carried out forward-looking and refined liquidity risk management and strengthened forecast of macroeconomics. Tapping on its own liquidity and the trends of market interest rate, the Company made use of quantitative modeling, dynamic calculation and other tools to dynamically predict the liquidity across the Bank. Flexibly carrying out active liability business, the Company improved the level of active liquidity risk management. Fifthly, appropriately increasing investment in qualified and high-quality bonds, the Company maintained sufficient liquidity reserves, and further improved liquidity risk mitigation capabilities. Sixthly, the Company strengthened liquidity risk management for business lines, overseas branches and affiliates. Seventhly, the Company tested and improved the liquidity contingency plan and emergency plan, and effectively improved the ability to respond to liquidity risk events through regular liquidity risk emergency drills.

The Company has satisfied the relevant requirements of the "Administrative Measures on Liquidity Risk of Commercial Banks" issued by the CBIRC in May 2018. As at the end of the reporting period, the liquidity coverage ratio of the Company as a legal person was 125.80%, higher by 25.80 percentage points than the minimum requirement of the CBIRC. The net stable funding ratio was 120.16%, higher by 20.16 percentage points than the minimum requirement of the CBIRC; the liquidity ratio was 42.31%, higher by 17.31 percentage points than the minimum requirement of the CBIRC; and the liquidity matching ratio was 148.91%, higher by 48.91 percentage points than the minimum requirement of the CBIRC, indicating that the Company had sufficient funding sources to meet the needs of sustainable and healthy development of the business. 9% of the Company's total RMB deposits and 5% of the Company's total foreign currency deposits were required to be placed with the PBOC. In summary, the Company's liquidity indicators remained at healthy levels. Deposits maintained steady growth. Liquidity reserves were sufficient and overall liquidity was at a safe level.

For more information about the Company's liquidity risk management, please refer to Note 60(c) to the financial statements.

3.11.7 Reputational risk management

Reputational risk refers to the risk that the Company might be negatively evaluated by relevant stakeholders due to the Company's operations, management and other activities or external incidents. Reputational risk management is an important part of the corporate governance and the overall risk management system of the Company, covering all activities, operations and businesses undertaken by the Company and its subsidiaries. The Company established the reputational risk management system and formulated relevant requirements and took initiatives to effectively prevent the reputational risk and respond to any reputational incidents, so as to reduce loss and negative impact to the greatest extent.

During the reporting period, the Company continued to improve its reputation risk management system, and established a "two-way early warning" mechanism between the reputation risk management department and business departments and branches, which effectively reduced the probability of reputation risks. By optimising the press release process and responding to public concerns in a timely manner, the Company took a variety of measures to resolve risks in order to minimise negative impacts. Strengthening business lines management and consolidated management, the Company empowered branches and affiliates to manage reputational risks in a view to strengthening the establishment of reputation risk teams across the Bank.

3.11.8 Compliance risk management

Compliance risk refers to the risk of being subject to legal sanctions, regulatory punishments, material financial losses, and reputational loss as a result of the failure to observe the laws, rules and standards. The Board of Directors of the Company is ultimately responsible for the compliance of the operating activities, and delegates the Risk and Capital Management Committee under the Board of Directors to supervise the compliance risk management. The Risk and Compliance Management Committee of the Head Office is the organisation to manage compliance risk of the whole company under the senior management. The Company set up three lines of defence for compliance risk management and the double-line reporting mechanism through the establishment of organisational management structure comprising the risk and compliance management committees, compliance supervisors, compliance officers and legal and compliance departments under the Head Office and its branches as well as compliance supervisors at branch and sub-branch levels, continuously improved risk management techniques and management procedures and established a complete and effective compliance risk management system to achieve effective control of compliance risks.

During the reporting period, the Company strictly implemented the regulatory policies and requirements, and further improved the long-term mechanism for internal control and compliance management. The first is to formulate and release the "Guiding Opinions on Bank-wide Internal Control and Compliance Work in 2020" to make arrangements for the bank-wide internal control and compliance management. Secondly, in accordance with the requirements of the China Banking and Insurance Regulatory Commission for the "review" task on rectification of market chaos, in-depth self-examination, self-correction and comprehensive rectification were carried out around the main points of the rectification work to eliminate hidden risks in a timely manner. The third is to strengthen the interpretation and transmission of new regulatory regulations, carry out timely internalisation of external regulations, strengthen the implementation of new regulatory regulations in the Company, and effectively identify, evaluate, and mitigate compliance risks of new products, new businesses and major projects. The fourth is to improve the system management system, reconstruct the existing system, and build a streamlined and efficient system. The fifth is to continue to organise top leaders, compliance officers, and compliance supervisors to carry out compliance education and case warning education to enhance employees' awareness on compliance. The sixth is to strengthen employee behavior management, strengthen the use of employee behavior management tools, and implement employee behavior management. The seventh is to build an on-site joint inspection mechanism, fully integrate various inspection activities such as business lines, risks, compliance, audits and party committee inspections, actively promote the exchange and sharing of inspection resources, inspection information, and inspection tools among various departments, and strengthen on-site inspections. Overall coordination, while effectively improving the quality and efficiency of inspections, has also greatly reduced the inspection burden of the units being inspected. Eighthly, the digital construction of internal control and compliance is accelerated, the internal control and compliance data resources are integrated, and the quality and efficiency of internal control, comprehensively enhancing compliance management.

3.11.9 Money laundering risk management

Money laundering risk refers to the risk that the Company may be used by the three types of activities such as "money laundering", "terrorist financing" and "proliferation financing" in the course of conducting business and managing operations. The Company has established a relatively sound money laundering risk management mechanism, including a governance structure with clear responsibilities from the Board and senior management to ordinary employees, a comprehensive system coverage, an effective risk assessment and monitoring system, scientific anti-money laundering data governance, and elements such as targeted management of customers or businesses associated with high risks, efficient anti-money laundering automated system support, independent inspection and auditing, and continuous and effective anti-money laundering compliance training, so as to provide guarantee for the Company's stable and compliance operations.

During the reporting period, the Company proactively fulfilled its anti-money laundering obligations and took various measures to ensure the effectiveness of its money laundering risk management. The first was to optimise the institution's money laundering risk assessment mechanism and incorporate institutional money laundering risk management practices into comprehensive risk management. The second was to further improve the anti-money laundering internal control system based on the actual situation of money laundering risks and business development. The third was to continue to carry out customer and product money laundering risk rating, strengthen risk management of customers and products associated with high risks, and continue to optimise the anti-money laundering business process. The fourth was to coordinate overseas institutions and subsidiaries to ensure the consistency of the Group's money laundering risk management. At the same time, the Company continued to increase scientific and technological investment in the field of anti-money laundering, actively explored the application of AI technology in the field of anti-money laundering, improved the system's risk control efficiency and external service capabilities, and enhanced the effectiveness of money laundering risk management.

3.12 Outlook and Coping Tactics

Thanks to the availability of vaccines, recovery will become the main theme of the global economy in 2021. Externally, with the gradual effect of the vaccine, the economic situation in the United States and Europe is expected to accelerate recovery in the second quarter and return to pre-pandemic level, which will boost China's external demand. Domestically, benefiting from adoption of efficient pandemic prevention and control measures, China saw that economic fundamentals continue to perk up, production momentum maintains strong, and demand is steadily picking up. It is expected that the three major global economies, namely China, the United States and Europe will achieve a resonated recovery.

Affected by the low base, China's GDP will enjoy a significant growth in 2021, accompanying the growth momentum to be changed. In terms of consumption, driven by rehabilitated income, the residents' spending power and consumption willingness will increase, therefore consumption will continue to return to the central level as before, becoming an important force to promote economic growth. In terms of investment, investment in manufacturing industry will become a bright spot in the economic development driven by demand recovery, climbing corporate profits, improved entrepreneur expectation, and loan granting in favour of manufacturing industry. Investment in real estate and infrastructure is expected to remain stable, however its contribution to economic growth will marginally decline. In terms of trade, despite the substitution effect on production in China for other countries will abate, it is estimated that the export will still maintain resilient with the stimulation brought by the recovery of global trade. The import is expected to grow further, driven by the improvement of domestic demand and the rebound of commodity prices. In terms of prices, affected by the factors such as increased pork supply and high base numbers, the CPI will decline as compared with previous year, and the PPI will increase driven by booming domestic and external demand. With the commencement of implementation of the "14th Five-Year Plan", China will step into a new stage of development and vigorously build a new development pattern under the new development philosophy.

Under the current economic situation, the Company intends to increase loans and advances to customers by approximately 11% and expects that the customer deposits will increase by approximately 13% in 2021.

In the face of the new macroeconomic situation, following principles underlying industry development, giving full play to its own advantages, adhering to the strategic direction of "Light-model Bank" and the strategic positioning of "One Body with Two Wings", the Company focuses on customer experience and takes risk management as the foundation to build a cyclic value chain of extensive wealth management. Leveraging on mutual promotion through the establishment of Digital Bank and the advancing of an organisational culture of openness and integration, the Company continues to explore the 3.0 business model of commercial bank operation, actively serves the real economy while striving to accomplish high-quality development and manages to create greater value for its shareholders. The specific operation strategy is as follows:

The first is to further develop the cyclic value chain of extensive wealth management. Taking the customers' capital flow as the channel, the Company will effectively connect the customers' needs at the investment end to those at the financing end, and further develop the cyclic value chain of "wealth management – asset management – investment banking". With a more open mind, the Company will promote the integration of "One Body with Two Wings" at a higher level, better integrate the advantages of China Merchants Bank with the resources of the whole society, realise the docking, flow and retention of the customers' funds and assets in the platform of China Merchants Bank, and build up an interactive ecosystem of funds supply, fund management and financing, so as to strengthen the "flywheel effect" and better create value for customers.

The second is to accelerate the transformation of the three major business models. The Company will speed up digital transformation and comprehensively upgrade the product system, service model and intelligent capabilities of CMB APP. The Company will accelerate platform-based transformation, create an open service platform, integrate high-quality resources around the whole society to provide customers with non-stop financial services. The Company will exploit the advantage of "people + digital" to the full and create value for customers with professional capabilities. The Company will change profit models and vigorously develop consulting wealth management and discretionary entrustment business model to realise its own value in the process of creating value for customers in the long-term. The Company will manage to make breakthrough on wholesale business which is restricted to serve customers with its own balance sheet, and make full use of internal and external resources to meet various financing needs of customers. The Company will accelerate ecological transformation, improve the quality of living scenario construction and operational capabilities, and expedite the breakthrough of industrial internet and corporate digital services.

The third is to continuously improve risk management capabilities. The Company will set up a risk management system that is compatible to extensive wealth management and implement risk control strategy throughout the entire process of asset organisation, product creation, asset allocation, investor suitability, and post-investment management. The Company will systematically enhance industry research and customer recognition to build an industry classification system with its own characteristics. The Company will improve the one central management mechanism among the whole process for key customers with large transaction value, implement real estate-related regulatory policies and optimise customer, business and regional structure. The Company will improve response mechanisms to strictly prevent sanction risks and noncompliance risks.

The fourth is to further promote the Fintech construction. The Company will propel the transformation of data centers towards cloud computing centers, continue to promote the construction of technology middle-office, improve the market governance mechanism of Application Programming Interface (API) application, enhance the user experience on the API application market, improve the framework of data milled-office and strengthen data governance.

The fifth is to persist in promoting organisational cultural reform under the overall situation of openness and integration and push forward the transformation of openness and integration from physical reaction to chemical reaction. The Company will take cross-border integrated organisation as an effective organisational method to handle complex tasks and create an organisational form that meets the needs of different scenarios. The Company will further improve the talent exchange system and the cadre exchange mechanism, while avoiding the departmental barrier to enhance the practicality and empowering frontlines of middle-office.

3.13 Profit Appropriation

3.13.1 The profit appropriation plan for 2020

10% of the audited net profit of the Company for 2020 of RMB88.674 billion, equivalent to RMB8.867 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB8.247 billion, was appropriated to the general reserve. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend of RMB1.253 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in Renminbi for holders of A Shares and in Hong Kong Dollars for holders of H Shares. The actual appropriation amount in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by the PBOC for the week before the date of the shareholders' general meeting (inclusive of the day of the shareholders' general meeting). The retained profits will be carried forward to the next year. In 2020, the Company did not transfer any capital reserve into share capital. The above profit appropriation plan is subject to consideration and approval at the 2020 Annual General Meeting of the Company.

For the other information on the closing date for registration, the period for closure of register of members and the profit appropriation plan for the shareholders who are entitled to attend the Company's 2020 Annual General Meeting and those who are entitled to receive the final dividends for 2020, the Company will make further announcement(s) at appropriate times. The Company expects that the distribution of final dividends to the H Shareholders will be completed by 30 August 2021.

3.13.2 Profit appropriation for the last three years

Year	Number of bonus shares for every share held (No. of shares)	Cash dividend for every share held (inclusive of tax, in RMB)	Number of shares issued on capitalisation of surplus reserve for every share held (No. of shares)	Total cash dividends (inclusive of tax, in millions of RMB)	Net profit attributable to holders of ordinary shares in the consolidated financial statements for the year (in millions of RMB)	Proportion of cash dividend to net profit attributable to holders of ordinary shares in the consolidated financial statements (%)
2018	–	0.94	–	23,707	78,901	30.05
2019	–	1.20	–	30,264	91,197	33.19
2020(note)	–	1.253	–	31,601	95,691	33.02

Note: The profit appropriation plan for 2020 is subject to consideration and approval at the 2020 Annual General Meeting of the Company.

3.13.3 The formulation and implementation of the Company's cash dividend policies

1. As specified in the Articles of Association of China Merchants Bank Co., Ltd., the profit appropriation policies of the ordinary shares of the Company are:

   (1) Profit appropriation of the Company shall focus on reasonable returns on investment of the investors, and such policies shall maintain continuity and stability.

   (2) The Company may distribute dividends in cash, shares or a combination of cash and shares, and it shall distribute dividends mainly in cash. Subject to compliance with prevailing laws, regulations and the requirements of relevant regulatory authority on the capital adequacy ratio, as well as the requirements of general working capital, business development and the need for substantial investment, merger and acquisition plans of the Company, the cash dividend to be distributed by the Company to shareholders of ordinary shares each year in principle shall not be less than 30% of the net profit after taxation attributable to shareholders of ordinary shares audited in accordance with the PRC accounting standards for that year. The Company may pay interim cash dividend. Unless another resolution is passed at the shareholders' general meeting, the Board of Directors shall be authorised by the shareholders at a shareholders' general meeting to approve the interim profit appropriation plan.

   (3) If the Company generated profits in the previous accounting year but the Board of Directors did not make any cash profit appropriation proposal after the end of the previous accounting year, the Company shall state the reasons for not distributing the profit and the usage of the profit retained in the periodic report and the Independent Directors shall give an independent opinion in such regard.

   (4) If the Board of Directors considers that the price of the shares of the Company does not match the size of share capital of the Company or where the Board of Directors considers necessary, the Board of Directors may propose a profit appropriation plan in the form of shares and implement the same upon consideration and approval at a shareholders' general meeting, provided that the abovementioned cash profit appropriation requirements are satisfied.

   (5) The Company shall pay cash dividends and other amounts to holders of domestic shares listed domestically and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay cash dividends and other amounts to holders of H Shares and such sums shall be calculated and declared in Renminbi and paid in Hong Kong dollars. The foreign currencies required by the Company for payment of cash dividends and other sums to shareholders of overseas listed foreign shares shall be handled according to the relevant requirements of foreign exchange administration of the State.

   (6) Where appropriation of the Company's fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall make deduction against the cash dividend to be paid to such shareholder, and such amount shall be used as the reimbursement of the funds appropriated.

   (7) The Company shall disclose the implementation progress of the cash dividend policy and other relevant matters in its periodic reports in accordance with the applicable requirements.

2. During the reporting period, the profit appropriation plan of the Company for 2019 was implemented in strict accordance with the relevant provisions of the Articles of Association of China Merchants Bank Co., Ltd.. It was considered and approved by the 9th meeting of the Eleventh Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2019 Annual General Meeting. The criteria and proportion of cash dividend were clear and specific, and the Board of Directors of the Company has implemented the profit appropriation plan. The profit appropriation plan of the Company for 2020 will also be implemented in strict accordance with the relevant provisions of the Articles of Association of China Merchants Bank Co., Ltd.. It will be considered and approved by the 22nd meeting of the Eleventh Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2020 Annual General Meeting of the Company. The Independent Directors of the Company have expressed their independent opinions on the profit appropriation plans for 2019 and 2020 that the profit appropriation plans of the Company and their implementation process have provided adequate protection for the legitimate rights and interests of minority investors.

3.14 Environmental, Social and Governance (ESG)

The Company attaches great importance to ESG. Through the promotion of basic social responsibility and ESG concepts in the industry, the Company promotes the integration of ESG concepts into the daily work of its businesses and functional departments, conducts regular communications with the shareholders, investors, regulatory authorities, customers, communities and other important stakeholders through various channels, listens to and understands the concerns of stakeholders in a timely manner, and works together with the stakeholders to jointly improve the Company's level in fulfilling social responsibilities and managing ESG risks.

In 2020, the Company proactively put its efforts into security of financial products, information security and privacy protection, green finance, inclusive finance, pandemic prevention and control, poverty alleviation, human resources development and participation in community construction, proactively fulfilled social responsibilities, and effectively managed the environmental and social risks. For details, please refer to "2020 China Merchants Bank Co., Ltd. Sustainability Report" published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company. The relevant disclosures are in compliance with the requirements of the "Environmental, Social and Governance Reporting Guide" issued by the Hong Kong Stock Exchange.

Environmental information

During the reporting period, the Company focused on the national "14th Five-Year Plan" and the "3060" carbon emission goals of "peaking carbon dioxide emissions" and "carbon neutral", furthered the development of green finance, and actively responded to climate change risks. During the reporting period, the Company did not have any environmental violation incident.

In terms of green credit, the Company strengthened green industry research, actively conducted research on green environmental protection industry, and deepened industrial awareness. The Company improved the policy system, formulated the "Green Credit Policy", "Credit Policy for Energy Conservation and Environmental Protection Industry" and other credit policies, as well as credit review guidelines such as the "Credit Review Guideline for Wind Power and Equipment Manufacturing Industry", the "Credit Review Guideline for Atmospheric Environment Control and Equipment Industry", the "Credit Review Guideline for Biomass Power Generation", and the "Credit Review Guideline for Waste Incineration Power Generation Project", so as to further divert credit resources to industries and enterprises with low energy consumption, low resources consumption, low pollution and low emissions. The Company also strictly controlled credit granted to industries with high pollution, high energy consumption and overcapacity, promoted the digestion, integration, transfer and elimination of overcapacity industries such as steel, cement, glass and electrolytic aluminum, and controlled new loans to industries with high pollution and high energy consumption to effectively prevent and control credit risks and environmental risks. As at the end of report period, the green loan balance of the Company was RMB207.133 billion, representing an increase of RMB30.360 billion or 17.17% as compared with the end of the previous year, which was higher than the increase of 8.88 percent points in corporate loans and advances. Green loan was mainly granted to the fields of comprehensive utilisation of energy conservation and environmental protection, clean energy and green transportation.

In terms of green bond issuance, during the reporting period, the Company issued the "Green, Social Responsibility and Sustainable Development Bond Framework of China Merchants Bank" to finance or refinance qualified assets or projects with environmental or social benefits. Every green, social or sustainable development bond issued under this framework was in compliance with the three major principles of the International Capital Market Association (ICMA), namely the "Green Bond Principles", "Social Bond Principles" and "Sustainable Development Bond Principles". At the same time, green projects in mainland China must also comply with the "Catalogue of Green Bond Supported Projects" (《綠色債券支持項目目錄》) formulated by the Green Finance Committee of the PBOC and relevant industry standards issued by other competent ministries. During the reporting period, the Company issued 2 bonds in total under this framework, being a green bond of USD800 million and a sustainable bond of USD300 million, respectively.

In terms of green bond underwriting, during the reporting period, the Company assisted 4 enterprises in issuing 5 green bonds, with a total issuance size of RMB8.3 billion, among which, the bonds with the Company as the lead underwriter amounted to RMB5.4 billion, strongly supporting the direct financing of environmental-friendly and low-carbon enterprises.

In terms of green operation, the Company has given full play to the advantages of Fintech, reformed service processes, and continued to develop paperless operations such as online business and online approval. The Company vigorously promoted the electronic billing service of credit cards. During the reporting period, the Company saved more than 1.9 billion pieces of paper and achieved an environmental-friendly green transformation. At the same time, the Company continued to promote a series of energy-saving and consumption reduction work in the office areas, such as the renewal of cooling towers, the upgrade and transformation of chiller control systems and the energy-saving lighting of parking garages, and improved the efficiency of air distribution in its own data center, so as to reduce power consumption, thereby optimising the energy efficiency indicators of the data center year by year.

Security of financial products

In terms of the display of agency sales products, the Company highlighted the reminders of product management agencies in various sales channels and information query platforms to distinguish between proprietary wealth management products and agency sales of wealth management products, so as to help customers identify the sources of products. In terms of system restrictions, the sales system is used to limit over-risk purchases, and the second level of risk confirmation is added for groups such as elderly customers. In terms of sales quality control, the Company set up special wealth management products sales areas in its outlets to strictly implement the requirements on audio and video recording during the sales process.

At the same time, in order to help customers better understand wealth management products, the Company carried out a series of investor education activities during the reporting period, such as clarification of the basic concepts of net-value wealth management, interpretation of relevant policies and regulations, live product roadshows and one-minute short videos on wealth management, and through monthly investment strategy reviews, quarterly product operation reports, aperiodic market fluctuation reviews, product strategy review reports and others, the Company popularised financial knowledge to customers.

Information security and privacy protection

The Company conscientiously implemented the "Network Security Law of the People's Republic of China" (《中華人民共和國網絡安全法》) and other laws and regulations and the "Security Management Regulation on Mobile Financial Client Application Software" (《移動金融客戶端應用軟件安全管理規範》) and other requirements, formulated the "Management Measures for Retail Finance Personal Information of China Merchants Bank (Fourth Edition)" (《招商銀行零售金融個人信息管理辦法(第四版)》), specified the basic principles of personal information protection are "protection in accordance with laws, grading the responsibilities, information confidentiality, authority management, system management, and violations must be investigated", and adopted a monitoring and management mechanism to ensure strict implementation of the systems. The Company carried out special information security governance activities, at the same time, strictly controlled the scope of data authorisation, standardised the approval management of important aspects of data use, strengthened the supervision and inspection of daily database use and management, and regularly evaluated and rectified data risks to strictly prevent data leakage risks. During the reporting period, the Company did not have any incident of information security and personal privacy leakage.

Consumer rights protection

In 2020, the Company further deepened its understanding of the importance of protecting the rights of financial consumers, fully affirmed the principal consciousness as the first person responsible for protecting the rights of financial consumers and regarded protecting the rights of financial consumers as an important part of its operation strategy and corporate culture. The Company constantly improved the matching of the consumer rights protection system of the Company and its organisational structure, operational scale and business nature, continuously enhanced the management of operational activities and business processes, and strictly performed its principal responsibility for protecting the rights of financial consumers.

In 2019, the Company had officially established the consumer rights protection system with the working procedures of the Consumer Rights Protection Committee as the top-level design, the management measures for consumer rights protection as the main body, and a series of supporting systems and working mechanisms as replenishments. During the reporting period, the Company continued to promote and deepen the consumer rights protection work, and the relevant major issues are as follows:

Firstly, with respect to full-process management and control, the Company constantly improved and updated the "Working Regulations for Consumer Rights Protection and Service Supervision Management Committee of China Merchants Bank (2nd Edition)", and newly formulated the "Management Measures for Emergency Response to Incidents of Consumer Rights Protection of China Merchants Bank". Meanwhile, the Company continued to review the consumer rights protection in respect of financial products and services, covering the design and development of various products and services, rules and regulations, contract texts, various advertising and marketing activities, etc., and supervised the relevant implementation results through the monitoring and inspection of consumer rights protection, internal audits and other means, thus effectively and consistently implementing various regulatory requirements, and ensuring that our business operation was legally carried out under the regulatory framework.

Secondly, with regards to the publicity and education of financial knowledge, the Company fully leveraged the characteristics of its customer base comprising more of young customers to innovate and constantly carry out the financial knowledge publicity and education activities by "focusing on online channels and supplementing with offline channels (線上為主、線下為輔)". Through active publicity in cooperation with different industries, and taking advantage of the current short-video craze, the Company launched "Zhao Xiao Bao (招小寶)" WeChat video account, in which financial knowledge was popularised through interesting short videos, with a focus on creating a series of down-to-earth, practical and popular contents for the elderly and other groups. The Company set up a special publicity and education area at each business outlet for a long term to carry out daily education activities, so as to effectively remind consumers of financial risks and intercept frauds, and it also encouraged each branch to carry out various normal financial knowledge publicity activities based on their respective conditions. Among them, the Company's self-created micro-film "The Adventures of Aunt Ma (馬阿姨歷險記)" tells the story of its branch employees identifying a financial fraud and helping Aunt Ma avoid financial loss, which was adopted and released by the "Xuexi.cn (學習強國)" APP.

Thirdly, as for complaint management, the Company earnestly implemented regulatory requirements, further improved the complaint management system, and publicised complaint channel information at business outlets, official websites and CMB APP to ensure that its customers can easily access to the information of complaint acceptance channel. The Company continuously explored the more scientific and efficient approaches to conduct complaint management, and established the work mechanism for acceptance, classification, handling and feedback of complaints of the whole Bank as well as the diversified resolution of disputes. The Company utilised Fintech to develop a consumer complaint management system to achieve refined management and standardised classification of consumer complaints, revised the "Management Measures for Customer Complaints of China Merchants Bank (5th Edition)", specifically formulated a chapter on diversified resolution of disputes, and established the quick settlement and compensation mechanism for financial disputes, so as to ensure that the whole Bank can handle complaints in compliance with laws and regulations. In 2020, the Company received a total of 27,992 complaints passed over from regulatory authorities, which are shown by regional distribution in the following table.

Region	Number of complaints	Region	Number of complaints	Region	Number of complaints
Beijing	405	Fujian	114	Yunnan	70
Tianjin	127	Jiangxi	59	Tibet	0
Hebei	21	Shandong	646	Shaanxi	179
Shanxi	52	Henan	57	Gansu	17
Inner Mongolia	22	Hubei	318	Qinghai	6
Liaoning	152	Hunan	94	Ningxia	38
Jilin	14	Guangdong	471	Xinjiang	33
Heilongjiang	55	Guangxi	20	Dalian	39
Shanghai(Note)	19,998	Hainan	5	Ningbo	45
Jiangsu	401	Chongqing	117	Xiamen	27
Zhejiang	139	Sichuan	123	Qingdao	243
Anhui	85	Guizhou	7	Shenzhen	3,793

Note: Including credit card complaints.

During the reporting period, the Voice of Customers (including customer complaints, rationalisation suggestions, opinions, etc.) of the whole Bank had an occurrence rate of 0.31%. The complaints related to credit cards and debit cards accounted for 63% and 37% in terms of the business classification of the Voice of Customers, respectively.

Targeted poverty alleviation

Targeted poverty alleviation planning: The Company resolutely implemented the decisions and arrangements of the Central Committee of the CPC and the State Council on poverty alleviation, and regarded targeted and fixed-point poverty alleviation as its key political tasks, for which it has established a leading group with the Secretary of the Party Committee and the President as the first person responsible for coordinating the cross-division poverty alleviation efforts under the leadership of the Party Committee. The Company optimised poverty alleviation mechanism, focused on the difficulties of poverty alleviation, continuously increased its assistance and carried out innovation of poverty alleviation products to reinforce the targeted and fixed-point poverty alleviation efforts and fight the battle of targeted poverty alleviation, by centering around the basic poverty alleviation standards known as "two no-worries and three guarantees (no worry about food and no worry about clothes, and guarantee of compulsory education, guarantee of basic medical care and guarantee of safe housing)" and adhering to the poverty alleviation guideline of "really conducting poverty alleviation and helping the people really in need". It successfully helped Yongren County and Wuding County, Yunnan Province to get rid of poverty on 30 April 2019 and 16 May 2020, respectively.

Summary of annual targeted poverty alleviation: During the reporting period, the Company entered into the "Fixed-point Poverty Alleviation Responsibility Statement for State-owned Entities (《中央單位定點扶貧責任書》)", for which it invested supporting funds of RMB44,366,100, helped raise supporting funds of RMB1,981,100, trained 1,168 grassroots officials and 3,625 technicians, purchased agricultural products worth RMB12,506,000 from poverty-stricken areas, and helped poverty-stricken areas to sell agricultural products worth RMB3,930,700 in Wuding County and Yongren County, Yunnan Province, thus successfully accomplishing the tasks listed in the "Fixed-point Poverty Alleviation Responsibility Statement for State-owned Entities". During the reporting period, the Company actively carried out fixed-point poverty alleviation through education, cultural development, industrial support, consumption, professional expertise and job creation, and utilised the "party-building mechanism" to push forward poverty alleviation in safe housing, healthcare and drinking water safety. In addition to the "CMB Hope Primary School (招銀希望小學)" education brand for poverty alleviation, the Company funded the construction of 70 "CMB Rural Clinics (招銀鄉村衛生室)" to help secure the basic medical service for 118,612 people in 66 village committees in the two counties, thus making initial achievements in the poverty alleviation through healthcare improvement. In addition, President Tian Huiyu and Executive Vice President Wang Yungui both led a team to conduct research on poverty alleviation in each of the two counties, and offered on-site guidance on poverty alleviation. During the reporting period, the Company granted targeted poverty alleviation loans amounting to RMB4.584 billion on a national scale, including RMB2.248 billion and RMB2.336 billion of accurate poverty alleviation loans for individuals and entities, respectively.

The following table set forth the statistics of the Company's targeted poverty alleviation efforts:

Indicator		Quantity and implementation status
I.	General information	
	Funds	Directly invested supporting funds of RMB44,366,100 in Wuding County and Yongren County
II.	Itemised investment	
	Poverty alleviation through industrial development	
	Types of projects for poverty alleviation through industrial development	Tourism, markets, demonstration parks, cooperatives, water supply and other project types
	Number of projects for poverty alleviation through industrial development	16
	Invested amount of projects for poverty alleviation through industrial development	RMB5,468,500
	Poverty alleviation through transferred employment	
	Number of persons receiving vocational skill training (person/time)	3,625
	Number of registered impoverished people getting employed with the help offered (person)	533
	Poverty alleviation through education	
	Amount of investment in financing needy students	RMB9,357,000
	Number of needy students financed (person)	5,447
	Poverty alleviation through healthcare improvement	
	Amount of investment in the medical and health resources of poverty-stricken areas	RMB19,326,500
	Guaranteed basic living standard for people unable to work	
	Amount of investment in helping needy disabled people	RMB2,706,500
	Number of needy disabled people assisted (person)	The projects can benefit all disabled people in Wuding County and Yongren County

Follow-up planning: The Company will resolutely implement the decisions and deployments of the Central Committee of the CPC and the State Council on rural revitalisation, adhere to the solemn promise of "being committed to truly achieving poverty alleviation with continuous supports (脱貧不脱鈎)", optimise assistance mechanism, and constantly increase its supporting efforts with a focus on solving the difficulties of poverty alleviation and rural revitalisation in the Wuding County and Yongren County in Yunnan Province.

Governance information

The Company continued to carry out management innovations to improve the effectiveness of corporate governance. Through years of practice and exploration, the corporate governance of the Company has been continuously improved and perfected, and has truly achieved efficient operation in both formality and content. The core of the Company's corporate governance mechanism is to adhere to the leadership of the Party, strengthen Party-building, continuously play the core role of the Party in corporate governance, and integrate the leadership of the Party into all aspects of corporate governance. The key to the Company's corporate governance mechanism is to adhere to the President assuming full responsibility under the leadership of the Board of Directors, the market-based talent selection and employment mechanism and the remuneration incentive mechanism. The Company's shareholding structure is reasonable and the shareholders' behaviors are regulated. The Shareholders' General Meeting is the Company's authority and exercises its powers according to law. The Board of Directors, the Board of Supervisors and the senior management diligently perform their duties, especially the Company's adherence to the President assuming full responsibility under the leadership of the Board of Directors, which provides a fundamental guarantee for the long-term, healthy and sustainable development of the Company. The Board of Directors mainly controls overall situation, steers development direction and ensures efficient implementation, focusing on strategic guidance, risk management, incentives and constraints. The Board of Supervisors takes "strengthening duty performance supervision while serving operation and development" as its guiding concept to create the pragmatic and efficient supervision system with clear boundaries and comprehensive coverage, so as to effectively safeguard the legitimate rights of corporate governance stakeholders such as the Company, its shareholders and employees. The Company has established a sound hierarchical discussion and management authorisation system under which the President is accountable to the Board of Directors. The Company adheres to the market-oriented talent selection and employment mechanism and the remuneration incentive mechanism to fully stimulate the vitality of talents, and guides officials and employees to establish the concept of sharing interests and risks with the Company, thereby providing a strong mechanism guarantee for its long-term stable development.

During the reporting period, the Board of Directors of the Company actively performed its duties in inclusive finance, consumer rights protection and social responsibilities. (1) The "Proposal on Addition of Inclusive Finance Development into the Duties of the Strategy Committee under the Board" and the "Inclusive Finance Development for 2019 and Work Plan Report for 2020" were reviewed and approved by the Strategy Committee of the Board of Directors. The Strategy Committee under the Board of Directors was additionally given the duties for inclusive finance development, for which it shall take charge of reviewing the Company's strategic plan, annual operation plan and basic management system for inclusive finance development, and better guiding the development of the Company's inclusive finance. (2) The "Work Report on Consumer Rights Protection for 2019" and the "Work Report on Consumer Rights Protection for the first half of 2020" were reviewed and approved by the Related Party Transactions Management and Consumer Rights Protection Committee of the Board of Directors and the "Analysis Report on Customer Complaints of the Whole Bank for 2019" and the "Report on Interpretation of Key Points of the Implementation Measures for the Financial Consumer Rights Protection of the People's Bank of China" were reviewed. (3) The "Proposal on Addition of Inclusive Finance Development into the Duties of the Strategy Committee under the Board", the "Inclusive Finance Development for 2019 and Work Plan Report for 2020", the "Work Report on Consumer Rights Protection for 2019" and the "Social Responsibility Report for 2019" were reviewed and approved by the Board of Directors. (4) The "Report on Promoting the Sustainable Development of Inclusive Finance with Fintech" was reviewed at the board meeting of Non-executive Directors.

During the reporting period, the Board of Supervisors of the Company gave full play to its role in supervising the duty performance of the Board of Directors and senior management, and actively and effectively protected the legitimate interests of the Company, shareholders, employees, creditors and other stakeholders. (1) The Board of Supervisors reviewed and listened to the "Social Responsibility Report for 2019", the "Work Report on Consumer Rights Protection of the Whole Bank for 2019" and other issues, and continuously supervised the Company's performance on social responsibilities, especially its efforts in consumer rights protection. (2) The Supervisors attended the meetings of the Board of Directors and its special committees, focusing on the Board of Directors' review on the issues related to inclusive finance, consumer rights protection and social responsibilities, and expressed their opinions and suggestions. (3) They attended senior management meetings such as the meetings of the President's office to supervise the implementation by the senior management of the resolutions of the Board of Directors and the specific measures related to ESG matters. (4) The Employee Supervisors reported duties to the Worker's Congress as scheduled, reporting on their participation in the work of the Board of Supervisors for 2019, while collecting and feeding back the opinions and demands of employee representatives to relevant departments, and placed caring for and meeting the needs of employees in work, family, physical and mental health as the first priority. In addition, the Board of Supervisors also used the opportunity to conduct researches in branches to express its solicitude to frontline employees and their families over the difficulties encountered and hard work done in the battle against the pandemic, truly reflecting its care for employees and protection of their interests.

For more details on corporate governance, please refer to Chapter VII.

3.15 Compliance with Relevant Laws and Regulations

During the reporting period, the Company has complied in all material respects with the relevant laws and regulations that have a significant impact on the operations of the Company.

3.16 Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the reporting period.

3.17 Permitted Indemnity Provision

The Company has maintained appropriate insurance coverage for the liabilities of the Directors, Supervisor and senior management in respect of legal actions against its Directors, Supervisor and senior management arising out of corporate activities.

Creating a bright future by virtue of responsibility

Supporting the construction of Huoshenshan and other quarantine hospitals as the lead underwriter of the first batch of bonds for pandemic prevention and control in China

Giving play to its financing advantages in the bond market, CMB successfully led the underwriting of RMB300 million ultra short-term commercial paper issued by China Nanshan Development (Group) Co., Ltd. in the inter-bank bond market.

Important Events

4.1 Principal Business Activities

The Company is engaged in banking and related financial services.

4.2 Financial Highlights

Details are set out in Chapter II Summary of Accounting Data and Financial Indicators.

4.3 Shareholders' Equity

For details of changes in shareholders' equity of the Company, please refer to the "Consolidated Statement of Changes in Shareholders' Equity" in the financial statements.

4.4 Fixed Assets

Changes in fixed assets of the Company as at the end of the reporting period are detailed in Note 28 to the financial statements.

4.5 Purchase, Sale or Repurchase of Listed Securities of the Company

Neither the Company nor its subsidiaries had purchased, sold or repurchased any of the Company's listed securities during the reporting period.

4.6 Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association of the Company and the shareholders of the Company have not been granted any pre-emptive rights.

4.7 Retirement and Welfare

Details about retirement and welfare provided by the Company to its employees are detailed in Note 39 to the financial statements.

4.8 Principal Customers

As at the end of the reporting period, the net operating income contributed by the top 5 customers of the Company did not exceed 30% of the total net operating income of the Company.

4.9 Interests and Short Positions of Directors, Supervisors and Chief Executives under Hong Kong Laws and Regulations

As at 31 December 2020, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO), which are required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including the interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
Tian Huiyu	Executive Director, President and Chief Executive Officer	A Share	Long position	Beneficial Owner	335,500	0.00163	0.00133
Zhou Song	Non-Executive Director	A Share	Long position	Interest of spouse	23,282	0.00011	0.00009
Liu Jianjun	Executive Director, Executive Vice President and Secretary of Board of Directors	A Share	Long position	Beneficial Owner	240,000	0.00116	0.00095
Wang Liang	Executive Director, Executive Vice President and Chief Financial Officer	A Share	Long position	Beneficial Owner	240,000	0.00116	0.00095
Liu Yuan	Chairman of Board of Supervisors, Employee Supervisor	A Share	Long position	Beneficial Owner	270,000	0.00131	0.00107
Wang Wanqing	Employee Supervisor	A Share	Long position	Beneficial Owner	181,000	0.00088	0.00072
Liu Xiaoming	Employee Supervisor	A Share	Long position	Beneficial Owner	145,000	0.00070	0.00057

4.10 Directors' Interests in the Businesses Competing with Those of the Company

During the reporting period, none of the Directors of the Company has any interests in the businesses which compete or are likely to compete, either directly or indirectly, with those of the Company.

4.11 Financial, Business and Kinship Relations among Directors, Supervisors and Senior Management

Save as disclosed herein, the Company is not aware that there has been any financial, business, kinship or other material or connected relations among the Directors, Supervisors and senior management of the Company.

4.12 Contractual Rights and Service Contracts of Directors and Supervisors

During the reporting period, the Directors and Supervisors of the Company have no material interests in contracts of significance to which the Company or any of its subsidiaries was a party. None of the Directors and Supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (excluding statutory compensation).

4.13 Disciplinary Actions Imposed on the Company, Directors, Supervisors or Senior Management

During the reporting period, none of the Company, its Directors, Supervisors or senior management was subject to investigation by relevant authorities or to mandatory measures imposed by judicial organs or disciplinary inspection authorities. None of them had been referred or handed over to judicial authorities or prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor had they been prohibited from engagement in the securities markets, determined as unqualified persons, or been publicly censured by any stock exchange. The Company has not been penalised by other regulatory bodies which have significant impact on the businesses of the Company.

4.14 Explanation on the Integrity Profile of the Company

There has not been any court judgment over significant litigations with which the Company has not fulfilled, nor has there been any outstanding debt of significant amount during the reporting period.

4.15 Undertakings

In the course of the rights issue of A shares and H shares in 2013, each of China Merchants Group Ltd., China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司) (now renamed as China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司)) and China Ocean Shipping (Group) Company (now renamed as China Ocean Shipping Company Limited) had undertaken that they would not seek for related party transactions on terms more favorable than those given to other shareholders; they would repay the principal and interest of the loans granted by the Company on time; they would not interfere with the daily operations of the Company. Upon expiration of the lock-up period of the allocated shares, they would not transfer their allocated shares until they obtain the approval from the regulatory authorities on the share transfer and the shareholder qualification of transferees; and upon obtaining the approval from the Board of Directors and the shareholders' general meeting of the Company, they would continue to support the reasonable capital needs of the Company; they would not impose unreasonable performance indicators on the Company. For details, please refer to the A Share Rights Issue Prospectus dated 22 August 2013 on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. So far as the Company is aware, as at the end of the reporting period, the above shareholders had not violated the aforesaid undertakings.

According to the relevant requirements of the CSRC, the Company considered and approved the "Resolution Regarding the Dilution of Current Returns by the Non-public Issuance of Preference Shares and the Remedial Measures" at its 2016 Annual General Meeting on 26 May 2017, and formulated the remedial measures in respect of the dilution of current returns of the holders of ordinary shares which may be caused by the non-public issuance of preference shares. The measures include adhering to the strategic direction of "Light-model Bank" and the strategic positioning of "One Body with Two Wings", creating differentiated competitive advantages, strengthening the awareness of capital constraints and return on capital, striving to reduce capital consumption, improving the efficiency of capital utilisation, strengthening the management of asset quality, and maintaining a stable return policy for the holders of ordinary shares. Meanwhile, the Directors and senior management of the Company also undertook to earnestly implement the remedial measures. So far as the Company is aware, as at the end of the reporting period, neither the Company nor its Directors and senior management had breached any of the aforesaid undertakings.

4.16 Significant Connected Transactions[14]

4.16.1 Overview of connected transactions

A majority of the continuing connected transactions of the Company met the de minimis exemption and the non-exempt continuing connected transactions fulfilled the reporting and announcement requirements under the Hong Kong Listing Rules.

4.16.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company were those conducted by the Company with CMFM and its associates (hereinafter referred to as "CMFM Group"), and CM Securities and its associates (hereinafter referred to as "CM Securities Group"), respectively.

With the approval of the Board of Directors of the Company, on 3 December 2019, the Company announced that the annual caps for the continuing connected transactions with CMFM Group for the years of 2020, 2021 and 2022 were RMB1.4 billion, RMB1.6 billion and RMB1.8 billion, respectively. On 27 March 2018, the Company announced that the annual caps for the continuing connected transactions with CM Securities Group for the years of 2018, 2019 and 2020 were RMB500 million. For details of the above continuing connected transactions, please refer to the relevant announcements issued by the Company on 3 December 2019 and 27 March 2018, respectively.

CMFM Group

At the end of the reporting period, the Company and CM Securities held 55% and 45% of the equity interest in CMFM, respectively. CMFM Group is a connected person of the Company under the Hong Kong Listing Rules. The fund distribution agency service provided by the Company to CMFM Group constituted the continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 3 December 2019, the Company entered into a Business Co-operation Agreement with CMFM for a term commencing on 1 January 2020 and expiring on 31 December 2022. The agreement was entered into on an arm's length basis and calculated on normal commercial terms. CMFM Group shall calculate fees based on the rates specified in the fund offering documents and/or the offering prospectuses, and pay agency service fees to the Company in accordance with the agreement.

The annual cap for the continuing connected transactions between the Company and CMFM Group for 2020 was RMB1.4 billion, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were not more than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements under the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

In 2020, the continuing connected transactions between the Company and CMFM Group amounted to RMB1.227 billion.

[14] "Connected Transaction(s)" and "Connected Parties" in this section are the terms of the Hong Kong Listing Rules.

CM Securities Group

At the end of the reporting period, China Merchants Group Ltd. indirectly held 29.97% of the equity interest in the Company (by way of equity interests held, right of control or relationship of parties acting in concert). As China Merchants Group also held 44.17% of the equity interest in CM Securities, CM Securities Group is a connected person of the Company under the Hong Kong Listing Rules. The third-party custodian accounts, sales of funds, account custodian, the agency sales for wealth management products and collective investment products and other services provided by the Company to CM Securities Group constituted the continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 27 March 2018, the Company entered into a Business Co-operation Agreement with CM Securities for a term commencing on 1 January 2018 and expiring on 31 December 2020. The agreement was entered into on normal commercial principles after an arm's length negotiation, pursuant to which CM Securities Group shall pay the service fees to the Company at the normal market prices.

The annual cap for the continuing connected transactions between the Company and CM Securities Group for 2020 was RMB500 million, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were not more than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

In 2020, the continuing connected transactions between the Company and CM Securities Group amounted to RMB180 million.

4.16.3 Confirmation from the Independent Non-Executive Directors and auditors

The Independent Non-Executive Directors of the Company have reviewed the above-mentioned non-exempt continuing connected transactions between the Company and each of CMFM Group and CM Securities Group and confirmed that:

1. The transactions were entered into in the ordinary and usual course of business of the Company;
2. The terms of the transactions are fair and reasonable, and are in the interest of the Company and its shareholders as a whole;
3. The transactions were entered into on normal commercial terms or better terms;
4. The transactions were conducted in accordance with the terms of relevant agreements.

Furthermore, the Company has engaged Deloitte Touche Tohmatsu to review the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board of Directors has confirmed the findings, conclusions and the unqualified letter issued by Deloitte Touche Tohmatsu in respect of the aforesaid continuing connected transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the letter has been provided by the Company to the SEHK.

4.16.4 Significant transactions with related parties

The significant transactions between the Company and related parties are set out in note 61 to the financial statements. These transactions comprised those between the Company and its related parties in its ordinary course of business, including borrowings, investments, deposits, securities trading, agency services, custody and other fiduciary operations as well as off-balance sheet transactions. These transactions were conducted on normal commercial terms in the ordinary course of business of the Company, which constituted the connected transactions under the Hong Kong Listing Rules and complied with the applicable requirements thereof.

4.17 Material Litigations and Arbitrations

Several litigations were filed during the daily operation of the Company, most of which were filed proactively for the purpose of recovering non-performing loans. As at the end of the reporting period, there were 208 pending cases (including litigations and arbitrations) in which the Company was involved, with an aggregate of principal and interest of RMB928 million. The Company believes that none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

4.18 Material Contracts and Their Performance

Significant events in respect of holding in custody, contracting, hiring or leasing of assets

During the reporting period, the Company did not have any discloseable significant events involving holding in custody, contracting or hiring or leasing of any assets of other companies by the Company or vice versa.

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the CBIRC, the Company did not have any other significant discloseable guarantees.

Explanatory notes and independent opinions of the Independent Non-Executive Directors on the guarantees of China Merchants Bank

In accordance with the relevant requirements of the CSRC and Shanghai Stock Exchange, the Independent Non-Executive Directors of the Company carried out a due diligence review of the external guarantees of the Company for 2020 on an open, fair and objective basis, and issued their opinions on the special review as follows:

After review, it was ascertained that the external guarantee business of China Merchants Bank was approved by the CBIRC, and it was carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2020, the balance of the irrevocable guarantees of China Merchants Bank was RMB213.353 billion.

China Merchants Bank emphasises the risk management of the guarantee business. It has formulated specific management measures and operation workflow according to the risk profile of this business. In addition, China Merchants Bank has enhanced risk monitoring and safeguarded this business through management means such as on-site and off-site inspections. During the reporting period, the guarantee business of China Merchants Bank had been in normal operation and there were no non-compliant guarantees.

4.19 Use of Funds by Related Parties

During the reporting period, neither the substantial shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through, among others, any related transactions not entered into on an arm's length basis. Deloitte Touche Tohmatsu Certified Public Accountants LLP, being the auditor of the Company, has issued a special audit opinion in this regard.

4.20 Appointment of Accounting Firms and Sponsors

According to its resolutions passed at the 2019 Annual General Meeting, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic accounting firm of the Company and its domestic subsidiaries for 2020 and Deloitte Touche Tohmatsu as the international accounting firm of the Company and its overseas subsidiaries for 2020. These two accounting firms have been engaged as auditors of the Company since 2016. Zhu Wei and Zeng Hao are the certified public accountants who signed the audit report on the Company's financial statements for 2020 prepared in accordance with the PRC Generally Accepted Accounting Principles, who have been serving as the public accountants signing the financial statements of the Company since 2017 and 2016, respectively.

The financial statements of the Company for 2020 prepared under the PRC Generally Accepted Accounting Principles and the internal control of the Company as at the year end of 2020 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, and the financial statements for 2020 prepared under International Accounting Standards were audited by Deloitte Touche Tohmatsu. The total audit fees of the Group amounted to approximately RMB28.24 million, among which the audit fees for internal control was approximately RMB1.32 million. The Company paid the total non-audit fees of approximately RMB15.76 million to Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu for 2020. Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu confirmed that the provision of such non-audit services would not compromise their audit independence.

4.21 Review of Annual Results

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, both being the external auditors of the Company, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards, respectively, and each has issued an unqualified audit report. The Audit Committee under the Board of Directors of the Company has reviewed the Company's annual report for 2020.

4.22 Annual General Meeting

For the convening of its 2020 Annual General Meeting, the Company will make further announcement.

4.23 Publication of Annual Report

The Company prepared its annual report in both English and Chinese versions in accordance with the International Accounting Standards and the Hong Kong Listing Rules, which are available on the websites of Hong Kong Stock Exchange and the Company. In the event of any discrepancies in interpretation between the English and Chinese versions, the Chinese version shall prevail.

The Company also prepared its annual report in Chinese version in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for annual reports, which is available on the websites of Shanghai Stock Exchange and the Company.

Speed for hope

Opening a green credit channel to facilitate the capital turnover of pharmaceutical companies involved in the fight against the pandemic

CMB provided fast and efficient financial services and quickly completed the approval and extension of anti-pandemic loans, providing fund support for pharmaceutical company customers to purchase anti-pandemic medical supplies.

Changes in Shares and Information on Shareholders

5.1 Changes in Ordinary Shares of the Company During the Reporting Period

		31 December 2019		Changes in the No. of shares during the reporting period	31 December 2020	
		No. of shares (share)	Percentage (%)	(share)	No. of shares	Percentage (%)
1.	Shares subject to trading moratorium	–	–	–	–	–
2.	Shares not subject to trading moratorium	25,219,845,601	100.00	–	25,219,845,601	100.00
	(1) Ordinary shares in RMB (A Shares)	20,628,944,429	81.80	–	20,628,944,429	81.80
	(2) Foreign shares listed domestically	–	–	–	–	–
	(3) Foreign shares listed overseas (H Shares)	4,590,901,172	18.20	–	4,590,901,172	18.20
	(4) Others	–	–	–	–	–
3.	Total shares	25,219,845,601	100.00	–	25,219,845,601	100.00

As at the end of the reporting period, the Company had a total of 408,761 shareholders, including 377,267 holders of A Shares and 31,494 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium.

As at the end of the previous month prior to the disclosure date of this report (i.e. 28 February 2021), the Company had a total of 443,110 shareholders, including 411,988 holders of A Shares and 31,122 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium.

Based on the publicly available information and so far as the Directors were aware, as at the end of the reporting period, the Company had met the public float requirement of the Hong Kong Listing Rules.

5.2 Top Ten Holders of Ordinary Shares and Top Ten Holders of Ordinary Shares Whose Shareholdings Are Not Subject to Trading Moratorium

Serial No.	Name of shareholders	Type of shareholders	Shares held at the end of the period (share)	Percentage of the total share capital (%)	Type of shares	Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.	Overseas legal person	4,550,447,397	18.04	H Shares not subject to trading moratorium	2,169,043	–	Unknown
2	China Merchants Steam Navigation Co., Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading moratorium	–	–	–
3	China Ocean Shipping Company Limited	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	–	–	–
4	Hexie Health Insurance Co., Ltd. – Traditional – Ordinary insurance products	Domestic legal person	1,258,949,171	4.99	A Shares not subject to trading moratorium	–	–	–
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	1,258,542,349	4.99	A Shares not subject to trading moratorium	–	–	–
6	China Merchants Finance Investment Holdings Co., Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	–	–	–
7	Hong Kong Securities Clearing Company Limited	Overseas legal person	1,073,644,912	4.26	A Shares not subject to trading moratorium	56,318,751	–	–
8	Dajia Life Insurance Co., Ltd. – Universal products	Domestic legal person	1,036,132,435	4.11	A Shares not subject to trading moratorium	-222,816,665	–	–
9	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	–	–	–
10	China Securities Finance Corporation Limited	Domestic legal person	754,798,622	2.99	A Shares not subject to trading moratorium	–	–	–

Notes: (1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of China Merchants Bank trading on the transaction platform of HKSCC Nominees Ltd.. Hong Kong Securities Clearing Company Limited is an institution designated by others to hold shares on behalf of them as a nominal holder, and the shares held by it are the shares of China Merchants Bank acquired by investors through Shanghai-Hong Kong Stock Connect.

(2) As at the end of the reporting period, of the aforesaid top 10 shareholders, HKSCC Nominees Ltd. is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited; China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., China Merchants Finance Investment Holdings Co., Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are all subsidiaries of China Merchants Group Ltd.. The Company is not aware of any affiliated relationship or action in concert among other shareholders.

(3) The above holders of A Shares did not hold the shares of the Company through credit securities accounts.

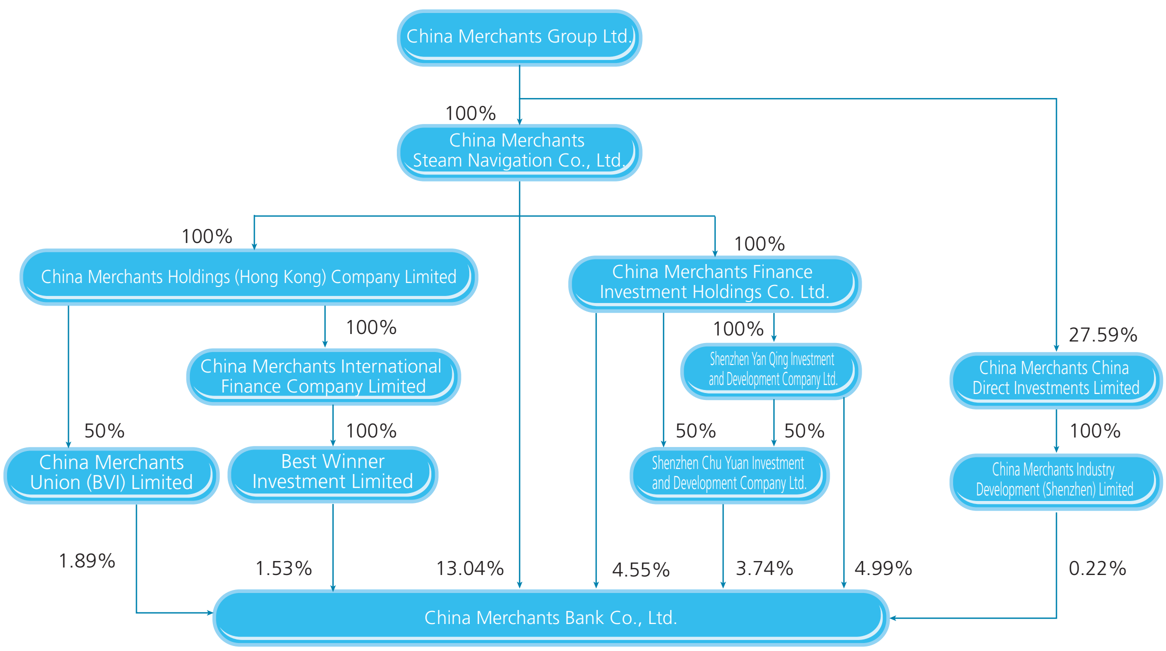
5.3 Information on Substantial Ordinary Shareholders

5.3.1 Information on the Company's largest shareholder

As at the end of the reporting period, China Merchants Group Ltd., through its subsidiaries, namely China Merchants Steam Navigation Co., Ltd., China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., Shenzhen Chu Yuan Investment and Development Company Ltd., China Merchants Union (BVI) Limited, Best Winner Investment Limited and China Merchants Industry Development (Shenzhen) Limited, indirectly held an aggregate of 29.97% shares in the Company. There was no pledge of the shares of the Company. Specifically, China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司) directly held 13.04% shares in the Company, and is the largest shareholder of the Company, with a registered capital of RMB7.0 billion, and its legal representative is Miao Jianmin. It mainly engages in investment and management of passenger and cargo shipping, dockyard, warehouse and vehicle transportation, tugboat and barge transportation businesses; repair, construction and trading of ship and offshore oil drilling equipment businesses; sale, purchase and supply of various transportation equipment, spare parts and materials; ship and passenger/goods shipping agency; construction of water and land construction projects; investment and management in finance, insurance, trust, securities and futures industry, etc.

As at the end of the reporting period, China Merchants Group Ltd. directly holds 100% equity interests in China Merchants Steam Navigation Co., Ltd. and is the controlling shareholder of the Company's largest shareholder, with a registered capital of RMB16.9 billion. Its legal representative is Miao Jianmin. China Merchants Group Ltd. is a state-owned enterprise under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was founded in 1872, when China was in its late Qing Dynasty and was undergoing the Westernisation Movement. It was one of the enterprises which played a significant role in promoting the modernisation of China's national industries and commerce at that time. Nowadays, it has developed into a diversified conglomerate, with its businesses focusing on three core industries, namely integrated transportation, featured finance and comprehensive development of cities and industrial zones. It is realising the transformation from three main businesses to three major platforms of industrial operation, financial services, investment and capital operation.

The Company did not have any controlling shareholder and de facto controller. As at the end of the reporting period, the equity relationship among the Company, its largest shareholder and the controlling shareholder of its largest shareholder is illustrated as follows (in this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding):



5.3.2 Information on other shareholders holding more than 5% shares of the Company

As at the end of the reporting period, China COSCO Shipping Corporation Limited indirectly held an aggregate of 9.97% shares in the Company through its subsidiaries, namely China Ocean Shipping Company Limited, COSCO Shipping (Guangzhou) Co., Ltd., Guangzhou Haining Maritime Technology Consulting Co., Ltd. (廣州海寧海務技術諮詢有限公司), COSCO Shipping (Shanghai) Co., Ltd. (中遠海運（上海）有限公司), COSCO SHIPPING Financial Holdings Co., Limited and Guangzhou Sanding Oil Transportation Co., Ltd. (廣州市三鼎油品運輸有限公司). There was no pledge of the shares of the Company. Specifically, China Ocean Shipping Company Limited held 6.24% shares in the Company. China Ocean Shipping (Group) Company (the predecessor of China Ocean Shipping Company Limited) was established on 22 October 1983, with a registered capital of RMB16.191 billion. Its legal representative is Xu Lirong. The scope of its businesses includes: international shipping; ancillary business in international maritime transportation; acceptance of space booking, voyage charter and time charter from cargo owners at home and abroad; leasing, construction, trading and maintenance of vessels and containers and manufacture of related facilities; ship escrowing business; provision of ship materials, spare parts and communications services relating to shipping business at home and abroad; management of enterprises engaging in vessel and cargo agency business and seafarer assignment business.

China COSCO Shipping Corporation Limited held 100% equity interests in China Ocean Shipping Company Limited and is its controlling shareholder. Its de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council. China COSCO Shipping Corporation Limited was established in February 2016, with a registered capital of RMB11.0 billion. Its legal representative is Xu Lirong. The scope of its businesses includes: international shipping; ancillary business in international maritime transportation; imports and exports of goods and technology; marine, land, aviation international freight forwarding business; ship leasing; sales of ships, containers and steel products; offshore engineering equipment design; terminal and port investment; communication equipment sales, information and technical services; warehousing (except hazardous chemicals); engaged in technology development, technology transfer, technical consulting, technical services and equity investment funds in the field of shipping and spare parts.

5.3.3 Other substantial shareholders under the regulatory calibre

1. As at the end of the reporting period, Dajia Life Insurance Co., Ltd. held 4.11% shares in the Company, and is a shareholder which has appointed a Director in the Company. There was no pledge of the shares of the Company. The controlling shareholder of Dajia Life Insurance Co., Ltd. is Dajia Insurance Group Co., Ltd.. Dajia Insurance Group Co., Ltd. was established on 25 June 2019, with a registered capital of RMB20.36 billion, and its legal representative is He Xiaofeng. Both of its controlling shareholder and de facto controller are China Insurance Security Fund Co., Ltd..

2. As at the end of the reporting period, China Communications Construction Group (Limited) through its subsidiaries, namely China Communications Construction Company Limited, CCCC Guangzhou Dredging Co., Ltd., CCCC Fourth Harbor Engineering Co., Ltd., CCCC Shanghai Dredging Co., Ltd., Zhen Hua (Shenzhen) Engineering Co., Ltd. and CCCC Third Harbor Consultants Co., Ltd., indirectly held an aggregate of 1.68% shares in the Company, and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. China Communications Construction Group (Limited) was established on 8 December 2005, with a registered capital of RMB7.274 billion, and its legal representative is Wang Tongzhou. Its de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council.

3. As at the end of the reporting period, SAIC Motor Corporation Limited held 1.23% shares in the Company and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. SAIC Motor Corporation Limited was established on 16 April 1984, with a registered capital of RMB11.683 billion, and its legal representative is Chen Hong. Its de facto controller is the State-owned Assets Supervision and Administration Commission of Shanghai City.

4. As at the end of the reporting period, Hebei Port Group Co., Ltd. held 1.17% shares in the Company and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. Hebei Port Group Co., Ltd. was established on 28 August 2002, with a registered capital of RMB8.0 billion. Its legal representative is Cao Ziyu and its de facto controller is the State-owned Assets Supervision and Administration Commission of Hebei Province.

5.4 Issuance and Listing of Securities

During the reporting period, the Company did not issue any new ordinary shares.

For details of the issuance and listing of preference shares of the Company, please refer to the section headed "Preference Shares" of this chapter.

During the reporting period, the Company did not have any corporate bonds listed on a stock exchange by way of public issuance.

For the issuance of other bonds of the Company and its subsidiaries, please refer to Note 46 to the financial statements.

The Company did not issue any internal staff shares.

5.5 Substantial Shareholders' Interests and Short Positions in the Company under Hong Kong Laws and Regulations

As at 31 December 2020, substantial shareholders had interests and short positions in the shares of the Company under Hong Kong laws and regulations as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (in this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares (share)	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	6,697,550,412			
		Long	Others	55,196,540			
				6,752,746,952	1	32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Steam Navigation Co., Ltd.	A	Long	Beneficial Owner	3,289,470,337			
		Long	Interest of controlled corporation	3,408,080,075			
		Long	Others	55,196,540			
				6,752,746,952	1	32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial Owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520			
		Long	Others	55,196,540			
				3,405,129,475	1	16.51	13.50
Best Winner Investment Limited	A	Long	Beneficial Owner	58,147,140	1	0.28	0.23
	H	Long	Beneficial Owner	328,776,923	1	7.16	1.30
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial Owner	1,258,542,349			
		Long	Interest of controlled corporation	944,013,171			
				2,202,555,520	1	10.68	8.73
China Ocean Shipping Company Limited	A	Long	Beneficial Owner	1,574,729,111		7.63	6.24
Hexie Health Insurance Co., Ltd.	A	Long	Beneficial Owner	1,258,949,171		6.10	4.99
Dajia Insurance Group Co., Ltd.	A	Long	Interest of controlled corporation	1,232,396,800		5.97	4.89

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares (share)	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
Dajia Life Insurance Co., Ltd.	A	Long	Beneficial Owner	1,232,396,800		5.97	4.89
Pagoda Tree Investment Company Limited (中國華馨投資有限公司)	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
CNIC Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial Owner	477,903,500	2	10.41	1.89
Citigroup Inc.	H	Long	Interest of controlled corporation	28,271,152			
		Long	Person having a security interest in shares	18,500			
		Long	Approved lending agent	337,489,722			
				365,779,374	3	7.97	1.45
		Short	Interest of controlled corporation	3,413,400	3	0.07	0.01
JPMorgan Chase & Co.	H	Long	Interest of controlled corporation	19,703,101			
		Long	Investment Manager	138,868,132			
		Long	Person having a security interest in shares	413,657			
		Long	Trustee	24,235			
		Long	Approved lending agent	117,979,541			
				276,988,666	4	6.03	1.10
		Short	Interest of controlled corporation	13,166,774	4	0.29	0.05
UBS Group AG	H	Long	Interest of controlled corporation	274,328,385	5	5.98	1.09

* The above information is disclosed on the basis of the information available from the website of Hong Kong Stock Exchange (www.hkex.com.hk).

Notes:

(1) For details of China Merchants Group Ltd. and its subsidiaries' interests in the Company, please refer to section 5.3.1 "Information on the Company's largest shareholder".

(2) Pagoda Tree Investment Company Limited (中國華馨投資有限公司) was deemed to hold interests in the 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of its wholly-owned subsidiary, Compass Investment Company Limited:

(2.1) China Merchants Union (BVI) Limited held 477,903,500 H shares (long position) in the Company. Verise Holdings Company Limited was deemed to hold interests in the 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of holding the 50% interest in China Merchants Union (BVI) Limited.

(2.2) Verise Holdings Company Limited was wholly-owned by CNIC Corporation Limited. Therefore, CNIC Corporation Limited was deemed to hold interests in the 477,903,500 H shares in the Company which are deemed to be held by Verise Holdings Company Limited.

(2.3) Compass Investment Company Limited was deemed to hold interests in the 477,903,500 H shares in the Company which are deemed to be held by CNIC Corporation Limited by virtue of holding the 98.9% interest in CNIC Corporation Limited.

The 477,903,500 H shares referred to in (2) and (2.1) to (2.3) above represented the same shares.

(3) Citigroup Inc. was deemed to hold a total of 365,779,374 H shares (long position) and 3,413,400 H shares (short position) in the Company by virtue of its control over a number of companies. The equity interests and short positions of Citigroup Inc. in the Company included a lending pool of 337,489,722 H shares. Besides, 3,062,200 H shares (long position) and 1,341,995 H shares (short position) were held through derivatives as follows:

881,205 H shares (long position) and 959,500 H shares (short position)	– through physically settled listed derivatives
308,495 H shares (long position) and 62,495 H shares (short position)	– through physically settled unlisted derivatives
1,872,500 H shares (long position) and 320,000 H shares (short position)	– through cash settled unlisted derivatives

(4) JPMorgan Chase & Co. was deemed to hold a total of 276,988,666 H shares (long position) and 13,166,774 H shares (short position) in the Company by virtue of its control over a number of companies. The equity interests and short positions of JPMorgan Chase & Co. in the Company included a lending pool of 117,979,541 H shares. Besides, 12,533,879 H shares (long position) and 11,009,838 H shares (short position) were held through derivatives as follows:

2,031,000 H shares (long position) and 880,000 H shares (short position)	– through physically settled listed derivatives
231,500 H shares (long position) and 241,500 H shares (short position)	– through cash settled listed derivatives
554,000 H shares (long position) and 8,184,927 H shares (short position)	– through physically settled unlisted derivatives
9,717,379 H shares (long position) and 1,703,411 H shares (short position)	– through cash settled unlisted derivatives

(5) UBS Group AG was deemed to hold a total of 274,328,385 H shares (long position) in the Company by virtue of its control over a number of companies. The equity interests of UBS Group AG in the Company included 8,632,193 H shares (long position) which were held through derivatives as follows:

2,407,000 H shares (long position)	– through physically settled listed derivatives
6,086,686 H shares (long position)	– through cash settled unlisted derivatives
138,507 H shares (long position)	– through physically settled unlisted derivatives

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) who has any interests or short positions in the shares of the Company as at 31 December 2020 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5.6 Preference Shares

5.6.1 Issuance and listing of preference shares

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 50,000,000 non-cumulative perpetual offshore preference shares on 25 October 2017. The issuance price is USD20 each and the coupon dividend rate per annum is 4.40% (excluding tax, i.e., the actual dividend yield to be received by the holders of the preference shares is 4.40%). The offshore preference shares of the issuance were listed on Hong Kong Stock Exchange on 26 October 2017 (abbreviated name of shares: "CMB 17USDPREF"; stock code: 04614; number of listed shares: 50,000,000). The total proceeds from the issuance of the offshore preference shares amounted to USD1.0 billion and, after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 275,000,000 domestic preference shares on 22 December 2017. The issuance price is RMB100 each and the coupon dividend rate per annum is 4.81% (including tax). The domestic preference shares of the issuance have been listed and traded on the integrated business platform of Shanghai Stock Exchange since 12 January 2018 (abbreviated name of shares: "Zhao Yin You 1 (招銀優1)"; stock code: 360028; number of listed shares: 275,000,000). The total proceeds from the issuance of the domestic preference shares amounted to RMB27.5 billion. The net proceeds after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

For details, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

5.6.2 Number of shareholders of preference shares and their shareholdings

As at the end of the reporting period, the Company had a total of 14 holders of preference shares (or their nominees), including 1 holder of offshore preference shares (or its nominee) and 13 holders of domestic preference shares.

As at the end of the previous month (i.e. 28 February 2021) preceding the date for disclosure of this report, the Company had a total of 14 holders of preference shares (or nominees), including 1 holder of offshore preference shares (or its nominee), and 13 holders of domestic preference shares.

As at the end of the reporting period, the shareholdings of the Company's top ten holders of offshore preference shares (or their nominees) were as follows:

Serial No.	Name of shareholder	Type of shareholder	Type of shares	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	The Bank of New York Depository (Nominees) Limited	Overseas legal person	Offshore preference share	–	50,000,000	100	–	Unknown

Notes: (1) The shareholdings of holders of preference shares are calculated based on the information listed in the register of holders of preference shares maintained by the Company.

(2) As the issuance is an offshore non-public issuance, the information listed in the register of holders of preference shares is the information on the nominees of the placees.

(3) The Company is not aware of any affiliated relationship or action in concert among the above holders of preference shares and the top ten holders of ordinary shares.

(4) "Percentage of shareholdings" represents the percentage of the number of offshore preference shares held by the holders of preference shares to the total number of offshore preference shares.

As at the end of the reporting period, the shareholdings of the Company's top ten holders of domestic preference shares were as follows:

Serial No.	Name of shareholder	Type of shareholder	Type of shares	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	China Mobile Communications Group Co., Ltd.	State-owned legal person	Domestic preference shares	–	106,000,000	38.55	–	–
2	CCB Trust Co., Ltd.	State-owned legal person	Domestic preference shares	–	30,000,000	10.91	–	–
3	BOC Asset Management Co., Ltd. (中銀資產管理有限公司)	Others	Domestic preference shares	–	25,000,000	9.09	–	–
4	China National Tobacco (Henan Province) Company	State-owned legal person	Domestic preference shares	–	20,000,000	7.27	–	–
	Ping An Property & Casualty Insurance Company of China, Ltd.	Others	Domestic preference shares	–	20,000,000	7.27	–	–
6	China Everbright Bank Company Limited	Others	Domestic preference shares	-2,000,000	17,000,000	6.18	–	–
7	China National Tobacco (Sichuan Province) Company	State-owned legal person	Domestic preference shares	–	15,000,000	5.45	–	–
	China National Tobacco (Anhui Province) Company	State-owned legal person	Domestic preference shares	–	15,000,000	5.45	–	–
9	China Construction Bank Corporation, Guangdong Branch	State-owned legal person	Domestic preference shares	–	10,000,000	3.64	–	–
10	China National Tobacco (Liaoning Province) Company	State-owned legal person	Domestic preference shares	–	5,000,000	1.82	–	–
	Changjiang Pension Insurance Co., Ltd.	State-owned legal person	Domestic preference shares	–	5,000,000	1.82	–	–
	China Resources SZITIC Trust Co., Ltd.	State-owned legal person	Domestic preference shares	–	5,000,000	1.82	–	–

Notes: (1) The shareholdings of preference shareholders are calculated based on the information listed in the register of holders of preference shares maintained by the Company.

(2) China National Tobacco (Henan Province) Company, China National Tobacco (Sichuan Province) Company, China National Tobacco (Anhui Province) Company and China National Tobacco (Liaoning Province) Company are all wholly-owned subsidiaries of China National Tobacco Corporation. Save for the above, the Company is not aware of any affiliated relationship or action in concert among the above holders of preference shares or between the above holders of preference shares and the Company's top ten holders of ordinary shares.

(3) "Percentage of shareholdings" represents the percentage of the number of domestic preference shares held by the holders of preference shares to the total number of domestic preference shares.

5.6.3 Dividend distribution of preference shares

Dividend distribution of offshore preference shares

In accordance with the relevant requirements under the "Resolution Regarding the Plan for the Non-public Issuance of Offshore Preference Shares of the Company", which was considered and approved at the 2016 annual general meeting, the first class meeting of the holders of A Shares for 2017 and the first class meeting of the holders of H Shares for 2017, the Company fully paid the dividends for offshore preference shares on 27 October 2020, which was in compliance with the relevant distribution conditions and distribution procedures.

The dividends for offshore preference shares of the Company are paid once a year in cash. The offshore preference shares adopt non-cumulative dividend payment method. After the dividends are distributed to the holders of offshore preference shares in accordance with the agreed dividend rate, these shareholders will not participate in the remaining profit distribution with the ordinary shareholders. Pursuant to the relevant terms of the offshore preference shares, the dividend rate per annum of the offshore preference shares is 4.40% (excluding tax, i.e., the actual dividend yield to be received by the holders of the preference shares is 4.40%). According to relevant laws and regulations, the Company shall withhold an income tax at a rate of 10% when distributing the dividends for the offshore preference shares to the offshore non-resident enterprises. According to the terms and conditions of the offshore preference shares, the Company is responsible to pay relevant income tax. Total amount of the proceeds from the issuance of the Company's offshore preference shares was USD1 billion, the total amount of dividends for the offshore preference shares is USD48,888,888.89, comprising of USD44,000,000.00 which was actually paid to the holders of the offshore preference shares, and the withholding tax amounted to USD4,888,888.89.

Dividend distribution of domestic preference shares

In accordance with the relevant requirements under the "Resolution Regarding the Plan for the Non-public Issuance of Domestic Preference Shares of the Company", which was considered and approved at the 2016 annual general meeting, the first class meeting of the holders of A Shares for 2017 and the first class meeting of the holders of H Shares for 2017, the Company fully paid the dividends for domestic preference shares on 18 December 2020, which was in compliance with the relevant distribution conditions and distribution procedures.

The dividends for domestic preference shares of the Company are paid once a year in cash. The domestic preference shares adopt non-cumulative dividend payment method. After the dividends are distributed to the holders of domestic preference shares in accordance with the agreed dividend rate, these shareholders will not participate in the remaining profit distribution with the ordinary shareholders. Pursuant to the terms of dividends payment for domestic preference shares, based on the dividend rate of 4.81% for domestic preference shares, the dividends per preference share paid were RMB4.81 (including tax), and based on 275 million of domestic preference shares in issue, the total amount of the dividends paid was RMB1,322.75 million (including tax).

For the details of dividend distribution for domestic and offshore preference shares, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 10 December 2020 and 12 October 2020, respectively.

5.6.4 Repurchase or conversion of preference shares

During the reporting period, there had been no repurchase and conversion of preference shares.

5.6.5 Restored voting rights of preference shares

During the reporting period, the voting rights of the Company's domestic and offshore preference shares in issue had not been restored.

5.6.6 Accounting policies for preference shares and the reason of adoption

The Company made accounting judgments over its preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the "International Financial Reporting Standard 9 – Financial Instruments" and the "International Financial Reporting Standard 7 – Financial Instruments: Disclosures" promulgated by International Accounting Standards Board. As the preference shares issued and outstanding of the Company carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as equity instruments.

Securing the future with companionship

Safeguarding credit through interest rate cuts and extensions

Tiding over the difficulties together with enterprises

Through measures such as proactive loan extensions, preferential interest rates, and credit protection, CMB spared no effort in preventing and fighting against the pandemic, helping enterprises to successfully resume operation and production.

Directors, Supervisors, Senior Management, Employees, and Organisational Structure

6.1 Directors, Supervisors and Senior Management

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether having received remunerations from the related parties of the Company during the reporting period
Miao Jianmin	Male	1965.1	Chairman	2020.9–2022.6	–	–	–	Yes
			Non-Executive Director	2020.9–2022.6				
Fu Gangfeng	Male	1966.12	Vice Chairman	2018.7–2022.6	–	–	–	Yes
			Non-Executive Director	2010.8–2022.6				
Tian Huiyu	Male	1965.12	Executive Director	2013.8–2022.6	220,400	335,500	419.80	No
			President and Chief Executive Officer	2013.9–2022.6				
Zhou Song	Male	1972.4	Non-Executive Director	2018.10–2022.6	–	–	–	Yes
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6–2022.6	–	–	–	Yes
Zhang Jian	Male	1964.10	Non-Executive Director	2016.11–2022.6	–	–	–	Yes
Su Min	Female	1968.2	Non-Executive Director	2014.9–2022.6	–	–	–	Yes
Wang Daxiong	Male	1960.12	Non-Executive Director	2016.11–2022.6	–	–	–	Yes
Luo Sheng	Male	1970.9	Non-Executive Director	2019.7–2022.6	–	–	–	Yes
Liu Jianjun	Male	1965.8	Executive Director	2019.8–2022.6	160,000	240,000	306.71	No
			Executive Vice President	2013.12–2022.6				
			Secretary of Board of Directors	2019.7–2022.6				
Wang Liang	Male	1965.12	Executive Director	2019.8–2022.6	160,000	240,000	306.40	No
			Executive Vice President	2015.1–2022.6				
			Chief Financial Officer	2019.4–2022.6				
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1–(note 1)	–	–	50.00	No
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1–(note 1)	–	–	50.00	No
Wong See Hong	Male	1953.6	Independent Non-Executive Director	2017.2–2022.6	–	–	50.00	No
Li Menggang	Male	1967.4	Independent Non-Executive Director	2018.11–2022.6	–	–	50.00	No
Liu Qiao	Male	1970.5	Independent Non-Executive Director	2018.11–2022.6	–	–	50.00	No
Tian Hongqi	Male	1957.5	Independent Non-Executive Director	2019.8–2022.6	–	–	50.00	No
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8–2022.6	180,000	270,000	344.51	No
Peng Bihong	Male	1963.10	Shareholder Supervisor	2019.6–2022.6	–	–	–	Yes
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6–2022.6	–	–	–	Yes
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6–2022.6	–	–	–	Yes
Ding Huiping	Male	1956.6	External Supervisor	2016.6–2022.6	–	–	40.00	No
Han Zirong	Male	1963.7	External Supervisor	2016.6–2022.6	–	–	40.00	No
Xu Zhengjun	Male	1955.9	External Supervisor	2019.6–2022.6	–	–	40.00	No
Wang Wanqing	Male	1964.9	Employee Supervisor	2018.7–2022.6	121,000	181,000	278.52	No
Liu Xiaoming	Male	1963.11	Employee Supervisor	2019.6–2022.6	100,000	145,000	203.94	No

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether having received remunerations from the related parties of the Company during the reporting period
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7–present	160,000	240,000	306.71	No
Wang Jianzhong	Male	1962.10	Executive Vice President	2019.4–2022.6	162,100	240,200	306.40	No
Shi Shunhua	Male	1962.12	Executive Vice President	2019.4–2022.6	165,000	245,000	306.19	No
Wang Yungui	Male	1963.6	Executive Vice President	2019.6–2022.6	160,000	160,000	306.40	No
Li Delin	Male	1974.12	Executive Assistant President	2019.4–present	130,000	200,000	268.39	No
Liu Hui	Female	1970.5	Executive Assistant President	2019.4–present	134,100	222,100	268.91	No
Li Jianhong	Male	1956.5	Former Chairman Former Non-Executive Director	2014.8–2020.9 2014.7–2020.9	–	–	–	Yes
Tang Zhihong	Male	1960.3	Former Executive Vice President	2006.5–2020.4	241,400	241,400	91.42	No

Notes:

(1) Pursuant to the relevant requirements of the "Guiding Opinions on Establishing the Independent Director System in Listed Companies" (《關於在上市公司建立獨立董事制度的指導意見》), the term of office of independent directors shall not exceed six years. In January 2021, the Board of the Company received the letters of resignation from Mr. Leung Kam Chung, Antony and Mr. Zhao Jun, the Independent Non-Executive Directors of the Company. In accordance with the provisions of relevant laws, regulations and requirements of the Articles of Association of China Merchants Bank Co., Ltd., the resignation of Mr. Leung Kam Chung, Antony and Mr. Zhao Jun will take effect only after new Independent Non-Executive Directors as their replacements have been elected respectively at the shareholders' general meeting of the Company and whose qualifications for serving as Independent Non-Executive Directors have been approved by the CBIRC. Prior to that, Mr. Leung Kam Chung, Antony and Mr. Zhao Jun will continue to perform their duties as Independent Non-Executive Directors and in special committees under the Board in accordance with the provisions of relevant laws, regulations and requirements of the Articles of Association of China Merchants Bank Co., Ltd..

(2) As at the end of the reporting period, the spouse of Mr. Zhou Song held 23,282 A shares in the Company.

(3) The remunerations received from the Company by the Directors, Supervisors and senior management who were appointed or resigned during the reporting period are calculated on the length of their service in the Company during the reporting period.

(4) The aggregate pre-tax remunerations of the full-time Executive Directors, Chairman of the Board of Supervisors and senior management of the Company are still being verified, and the information about the pre-tax remunerations of other staff will be disclosed separately upon confirmation of payment.

(5) There was a change in the shareholdings of the Directors, Supervisors and senior management listed in the above table during the reporting period, which was due to an increase in their respective shareholdings.

(6) None of the Directors, Supervisors or senior management listed in the above table has been punished by the securities regulator(s) over the past three years.

(7) None of the Directors, Supervisors or senior management listed in the above table holds any share options of the Company or has been granted any of its restricted shares.

6.2 Appointment and Resignation of Directors and Senior Management

Directors

In September 2020, Mr. Li Jianhong ceased to be the Chairman and Non-Executive Director of the Company due to change of work arrangement.

In September 2020, according to the relevant resolutions passed at the 2020 first extraordinary general meeting of the Company, Mr. Miao Jianmin was elected as the Chairman and Non-Executive Director of the Company, whose qualifications as the Director and the Chairman were approved by the CBIRC on 24 September 2020.

Senior Management

In April 2020, according to the relevant resolutions passed at the 10th meeting of the Eleventh Session of the Board of Directors of the Company, Mr. Tang Zhihong ceased to serve as an Executive Vice President of the Company due to his age.

In December 2020, the Company convened the 20th meeting of the Eleventh Session of the Board of Directors on which Mr. Li Delin was appointed as the Executive Vice President of the Company. The qualification of Mr. Li Delin as the Executive Vice President is subject to approval by the CBIRC.

For details of the appointment and resignation, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

6.3 Changes in Information of Directors and Supervisors

1. Mr. Fu Gangfeng ceased to concurrently serve as the Executive Director and the Chairman of the Board of Directors of China Merchants Port Holdings Company Limited (a company listed on Hong Kong Stock Exchange), and the Chairman of the Board of Supervisors of China Merchants RenHe Life Insurance Co., Ltd..
2. Mr. Zhang Jian concurrently serves as the Chairman of China Merchants Commerce Financial Leasing Co., Ltd. (招商局通商融資租賃有限公司), a Director of China Merchants Capital Investments Co., Ltd., and ceased to concurrently serve as the General Manager of Finance Department of China Merchants Group Ltd., the Vice Chairman of China Merchants Capital Investments Co., Ltd..
3. Ms. Su Min concurrently serves as a Director of China Great Wall Securities Co., Ltd. (長城證券股份有限公司).
4. Mr. Li Menggang concurrently serves as the Vice President of Guanghua Engineering Science and Technology Award Foundation (光華工程科技獎勵基金會).
5. Mr. Liu Yuan ceased to concurrently serve as the chairman of the professional committee under the supervisory committee of China Association for Public Companies.
6. Mr. Peng Bihong ceased to concurrently serve as the Chairman of CCCG Real Estate Group Limited.
7. Mr. Wen Jianguo serves as a standing committee member of the Party Committee and Chief Accountant of Jizhong Energy Group Co., Ltd. (冀中能源集團有限責任公司), ceased to serve as a Director, a standing committee member of the Party Committee and Chief Accountant of Hebei Port Group Co., Ltd. (河北港口集團有限公司).
8. Mr. Han Zirong concurrently serves as an Independent Director of Xuzhou Rural Commercial Bank Co., Ltd. (徐州農村商業銀行股份有限公司) and ceased to concurrently serve as an Independent Director of Bank of Hainan.
9. Mr. Wang Wanqing concurrently serves as a member of professional committee under the supervisory committee of China Association for Public Companies.

6.4 Current Positions Held by Directors and Supervisors in the Shareholders' Companies

Name	Name of Company	Major Title	Term of Office
Miao Jianmin	China Merchants Group Ltd.	Chairman	From July 2020 up to now
Fu Gangfeng	China COSCO Shipping Corporation Limited	Director and General Manager	From September 2019 up to now
Zhou Song	China Merchants Group Ltd.	Chief Accountant	From October 2018 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From September 2011 up to now From June 2018 up to now
Zhang Jian	China Merchants Group Ltd.	Chief Digital Officer Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From January 2019 up to now From June 2018 up to now
Su Min	China Merchants Group Ltd.	Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From June 2018 up to now
Wang Daxiong	COSCO SHIPPING Development Co., Ltd.	Chairman	From July 2019 up to now
Luo Sheng	Dajia Insurance Group Co., Ltd.	Deputy General Manager	From September 2020 up to now
Peng Bihong	China Communications Construction Group Co., Ltd.	Chief Accountant	From September 2019 up to now
Wen Jianguo	Hebei Port Group Co., Ltd.	Director and Chief Accountant	From July 2009 to October 2020
Wu Heng	SAIC Motor Corporation Limited	General Manager of Finance Affairs Department	From August 2019 up to now

6.5 Biography and Positions of Directors, Supervisors and Senior Management

Directors

Mr. Miao Jianmin is the Chairman and Non-Executive Director of the Company. Mr. Miao obtained a doctorate degree in Economics from Central University of Finance and Economics and is a senior economist. He is an alternate member of the nineteenth Central Committee of the Communist Party of China. Mr. Miao is the Chairman of China Merchants Group Ltd. and concurrently serves as the Chairman of China Merchants RenHe Life Insurance Co., Ltd.. Mr. Miao was the Vice Chairman and President of China Life Insurance (Group) Company, the Vice Chairman, President and Chairman of The People's Insurance Company (Group) of China Limited, the Chairman of PICC Property and Casualty Company Limited, the Chairman of PICC Asset Management Company Limited, the Chairman of PICC Health Insurance Company Limited, the Chairman of The People's Insurance Company of China (Hong Kong), Limited, the Chairman of PICC Capital Investment Management Company Limited, the Chairman of PICC Pension Company Limited and the Chairman of PICC Life Insurance Company Limited.

Mr. Fu Gangfeng is the Vice Chairman and Non-Executive Director of the Company. Mr. Fu obtained a bachelor's degree in Finance and a master's degree in Management Engineering from Xi'an Highway College and is a senior accountant. He is the Director and General Manager of China COSCO Shipping Corporation Limited. He was the Deputy Director of the Shekou ZhongHua Certified Public Accountants, the Director of the Chief Accountant Office, Deputy Chief Accountant and the Chief Financial Officer of China Merchants Shekou Industrial Zone Co., Ltd., the Chief Financial Officer of China Merchants Shekou Holdings Co., Ltd., the General Manager of the Finance Division, the Chief Financial Officer and Chief Accountant of China Merchants Group Ltd., the Director and General Manager of China Merchants Group Ltd., the Chairman of China Merchants Port Group Co., Ltd. (a company listed on Shenzhen Stock Exchange), the Executive Director and Chairman of the Board of Directors of China Merchants Port Holdings Company Limited (a company listed on Hong Kong Stock Exchange), and the Chairman of the Board of Supervisors of China Merchants RenHe Life Insurance Co., Ltd..

Mr. Tian Huiyu is an Executive Director, President and Chief Executive Officer of the Company. Mr. Tian obtained a bachelor's degree in Infrastructure Finance and Credit from Shanghai University of Finance and Economics and a master's degree in Public Administration from Columbia University. He is a senior economist. He was the Vice President of Trust Investment Branch of China Cinda Asset Management Co., Ltd. from July 1998 to July 2003, and the Vice President of Bank of Shanghai from July 2003 to December 2006. He consecutively served as the Deputy General Manager of Shanghai Branch, the head of Shenzhen Branch, and the General Manager of Shenzhen Branch of China Construction Bank ("CCB", a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) from December 2006 to March 2011. He acted as the Business Executive of retail banking at the Head Office and the Head and General Manager of Beijing Branch of CCB from March 2011 to May 2013. He joined the Company in May 2013 and has served as the President of the Company since September 2013. He is concurrently the Chairman of CMBIC, the Chairman of CMB International Capital Corporation Limited, the Vice Chairman of Merchants Union Consumer Finance Company Limited, the Chairman of Board of Supervisors of National Association of Financial Market Institutional Investors, a consultant of Shenzhen Strategic Advisory Committee for Enhancing Enterprise Competitiveness (深圳市提升企業競爭力戰略諮詢委員會), the Vice President of China Chamber of International Commerce, a member of High Level Guidance and Management Committee of Information Technology Risk in the Banking Industry (銀行業信息科技風險管理高層指導委員會) and a Director of National Internet Finance Association of China.

Mr. Zhou Song is a Non-Executive Director of the Company. Mr. Zhou obtained a master's degree of World Economics from Wuhan University. Mr. Zhou is the Chief Accountant of China Merchants Group Ltd., the Chairman of Shenzhen China Merchants Ping An Asset Management Co., Ltd. (深圳市招商平安資產管理有限責任公司), the Chairman of China Merchants Finance Co., Ltd. (招商局集團財務有限公司), the Chairman of China Merchants Investment Development Co., Ltd. (招商局投資發展有限公司) and the Chairman of the Board of Supervisors of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange). He was the Deputy General Manager of the Planning and Finance Department of the Head Office of China Merchants Bank, the Vice General Manager of Wuhan Branch, the Deputy General Manager (in charge of work) and General Manager of the Planning and Finance Department of the Head Office, the Employee Supervisor of China Merchants Bank, the Business Director and General Manager of the Assets and Liabilities Management Department of the Head Office, the President of Interbank Financial Department, the General Manager of the Assets Management Department of the Head Office and the Business Director of the Head Office, the President of Investment Banking and Financial Market Department, the General Manager of the Assets Management Department of the Head Office and the Business Director of the Head Office.

Mr. Hong Xiaoyuan is a Non-Executive Director of the Company. Mr. Hong obtained a master's degree in Economics from Peking University and a master's degree in Science from Australian National University. He is a senior economist. He serves as the Director of China Merchants Holdings (Hong Kong) Company Limited and the Assistant General Manager of China Merchants Group Ltd., the Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform and the Chairman of China Merchants Finance Holdings Company Limited. He concurrently serves as the Chairman of China Merchants Finance Investment Holdings Co., Ltd., China Merchants Capital Investments Co., Ltd., China Merchants United Development Company Limited and China Merchants Innovative Investment Management Co., Ltd., and the Director of China Merchants RenHe Life Insurance Co., Ltd. and CNIC Corporation Limited. He served as the Director of China Merchants Securities Co., Ltd. (a company then listed on Shanghai Stock Exchange), the Chairman of the Board of Directors of China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange), the Chief Executive Officer of China Merchants Finance Holdings Company Limited and the Chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd..

Mr. Zhang Jian is a Non-Executive Director of the Company. Mr. Zhang obtained a bachelor's degree in Economics and Management from the Department of Economics of Nanjing University and a master's degree in Econometrics from the Business School of Nanjing University, and is a senior economist. He is the Chief Digital Officer of China Merchants Group Ltd., the Director of the Digital Centre, the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform and a Director of China Merchants Finance Holdings Company Limited. He concurrently serves as the Chairman of China Merchants Commerce Financial Leasing Co., Ltd. (招商局通商融資租賃有限公司), the Chairman of China Merchants Financial Technology Co., Ltd. (招商局金融科技有限公司), the Chairman of the Board of Directors of China Merchants China Direct Investments Limited, a Director of China Merchants Capital Investments Co., Ltd., the Vice Chairman of China Merchants Capital Management Co. Ltd., the Vice Chairman of China Merchants Capital Holdings Co. Ltd., a Director of China Merchants Innovative Investment Management Co., Ltd., a Director of China Great Bay Area Fund Management Co., Limited, a Director of China Merchants Capital Holdings (International) Limited, a Director of China Merchants Innovative Investment (International) Co., Ltd. (招商局創新投資(國際)有限公司), a Director of China Merchants Innovation Investment General Partnership (International) Co., Ltd. (招商局創新投資普通合夥(國際)有限公司), a Director of China Merchants United Development Company Limited, a Director of Shi Jin Shi Credit Service Co., Ltd. (試金石信用服務有限公司) and a Director of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司). He had held various positions including General Manager of the Suzhou Branch of China Merchants Bank, Deputy General Manager of the Corporate Banking Department at the Head Office of China Merchants Bank (in charge), Business Director and General Manager of the Corporate Banking Department at the Head Office of China Merchants Bank, Business Director and General Manager of the Credit Risk Management Department at the Head Office of China Merchants Bank and Business Director and General Manager of the Comprehensive Risk Management Office at the Head Office of China Merchants Bank, a Director of China Merchants RenHe Life Insurance Company Limited, a Director of China Merchants Insurance Holdings Co., Ltd. (招商局保險控股有限公司), a Director of China Merchants Ping An Asset Management Co., Ltd., Deputy General Manager of China Merchants Finance Holdings Co., Ltd., a Director of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., General Manager of Finance Department of China Merchants Group Ltd. and the Vice Chairman of China Merchants Capital Investments Co., Ltd..

Ms. Su Min is a Non-Executive Director of the Company. Ms. Su obtained a bachelor's degree in Finance from Shanghai University of Finance and Economics and a master's degree in Business Administration from China University of Technology, and is a senior accountant, certified public accountant and certified public valuer. She is the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform. She concurrently serves as a Director of Bosera Asset Management Co., Limited, a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and a Director of China Great Wall Securities Co., Ltd. (長城證券股份有限公司). She successively served as the Deputy Director of Property Office of the State-owned Assets Supervision and Administration Commission of Anhui Province, a Director of Huishang Bank, the Deputy General Manager and Chief Accountant of Anhui Energy Group Co., Ltd., the Chief Accountant and a member of the Communist Party of China of China Shipping (Group) Company, the Chairman of China Shipping Finance Co., Ltd., the Chairman of COSCO SHIPPING Leasing Co., Ltd. (中遠海運租賃有限公司), a Director of Bank of Kunlun, and a Director of China Shipping Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and China Shipping Container Lines Company Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). She served as a Director of China Merchants Innovation Investment Management Co., Ltd. (招商局創新投資管理有限責任公司), a Supervisor of China Merchants Capital Investments Co., Ltd. and the General Manager of China Merchants Finance Holdings Co., Limited.

Mr. Wang Daxiong is a Non-Executive Director of the Company. Mr. Wang obtained a bachelor's degree in Shipping Finance and Accounting from the Department of Marine Transportation Management of Shanghai Maritime University and a master's degree in Business Administration for Senior Management from Shanghai University of Finance and Economics, and is a senior accountant. He is the Chairman of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and the Chairman of COSCO SHIPPING Investment Holdings Co., Ltd. (中遠海運投資控股有限公司). He concurrently serves as a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He served as a Director of China Merchants Bank from March 1998 to March 2014. He also served as the Vice President and Chief Accountant of China Shipping (Group) Company, Deputy General Manager of China Shipping (Group) Company and the Chairman of China Shipping (HK) Holdings Limited.

Mr. Luo Sheng is a Non-Executive Director of the Company. Mr. Luo obtained a doctorate degree in corporate governance from the Business School of Nankai University. Mr. Luo is currently the deputy general manager of Dajia Insurance Group Co., Ltd. (大家保險集團有限責任公司) and a director of Gemdale Corporation (a company listed on Shanghai Stock Exchange). Mr. Luo was the principal staff member of the Regulation Division of the Policy and Regulation Department, the principal staff member of the Market Analysis Division of the Development and Reform Department, the deputy director and director of the Corporate Governance Division of the Development and Reform Department, and the deputy director of the Regulation Department of the China Insurance Regulatory Commission. He also served as an executive director, the executive vice president, the secretary of the board of directors, and general manager of Shanghai Branch of China Insurance Information Technology Management Co., Ltd., and the deputy director of Development and Reform Department of China Insurance Regulatory Commission.

Mr. Liu Jianjun is an Executive Director, Executive Vice President and the Secretary of the Board of Directors of the Company. Mr. Liu obtained a master's degree in National Economics from Dongbei University of Finance and Economics, and is a senior economist. He has successively served as the Deputy General Manager of Jinan Branch of the Company, the General Manager of the Retail Banking Department under the Head Office, an Executive Vice President of the Retail Banking Department under the Head Office and the Business Executive of the Head Office since September 2000. He has been an Executive Vice President of the Company since December 2013 and the Secretary of the Board of Directors of the Company since July 2019.

Mr. Wang Liang is an Executive Director, Executive Vice President and Chief Financial Officer of the Company. Mr. Wang obtained a master's degree in Money and Banking from Renmin University of China, and is a senior economist. He concurrently serves as Vice President of Payment & Clearing Association of China and a member of the High-level Steering and Coordination Committee for Data Governance of China Banking and Insurance Regulatory Commission. He successively served as the Assistant General Manager, the Deputy General Manager and the General Manager of Beijing Branch of the Company. He served as the Executive Assistant President of the Company and concurrently, the General Manager of Beijing Branch since June 2012. He ceased to serve as the General Manager of Beijing Branch in November 2013, and has been serving as an Executive Vice President of the Company since January 2015. He concurrently served as the secretary of the Board of Directors of the Company from November 2016 to April 2019, and has concurrently been serving as the Chief Financial Officer of Company since April 2019.

Mr. Leung Kam Chung, Antony is an Independent Non-Executive Director of the Company. Mr. Leung obtained a bachelor's degree in Social Sciences from the University of Hong Kong. He also attended Harvard Business School's Program for Management Development and Advanced Management Program. He is the Chairman and Chief Executive Officer of Nan Fung Group, the Chairman and co-founder of New Frontier, and the Chairman of two charitable organisations, "Heifer – Hong Kong" and "Food Angel". Mr. Leung served as a member of the Executive Committee, the Senior Managing Director and the Chairman of Greater China Region of Blackstone. He also acted as the Chairman of Asia for JP Morgan Chase and worked for Citi in various positions, including head of Private Banking for Asia, the country corporate officer for Hong Kong SAR and China, the Regional Treasurer for North Asia and head of Investment Banking for North Asia, South West Asia. Past board membership of Mr. Leung included an Independent Director of Industrial and Commercial Bank of China Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), China Mobile Hong Kong Company Limited and American International Assurance, the Vice Chairman of China National Bluestar Group, a member of the international advisory board of China Development Bank and European Advisory Group. In terms of government services, Mr. Leung had served as financial secretary, non-official member of the Executive Council of Hong Kong SAR, Chairman of the Education Commission, Chairman of the University Grants Committee, member of the Exchange Fund Advisory Committee, member of the Preparatory Committee for the Hong Kong Special Administrative Region and Election Committee and Hong Kong Affairs Advisors to the Chinese Government, a member of the Board of Hong Kong Airport Authority and a Director of the Hong Kong Futures Exchange.

Mr. Zhao Jun is an Independent Non-Executive Director of the Company. Mr. Zhao obtained a bachelor's degree from the Department of Shipbuilding Engineering of Harbin Engineering University, a master's degree from the Department of Ocean Engineering of Shanghai Jiao Tong University, a doctorate degree in Civil Engineering from the University of Houston, a master's degree in Financial Management from the School of Management of Yale University. Mr. Zhao is currently the Chairman of Beijing Fellow Partners Investment Management Ltd.. He concurrently serves as the Independent Non-Executive Director of Bright Scholar Education Holdings Limited (a company listed on New York Stock Exchange) and the Independent Non-Executive Director of Sichuan Xunyou Network Technology Co., Ltd. (四川迅遊網絡科技股份有限公司), a company listed on Shenzhen Stock Exchange. He was a Managing Partner of DT Capital Partners, the Managing Director and the Chief Representative in China of ChinaVest.

Mr. Wong See Hong is an Independent Non-Executive Director of the Company. Mr. Wong obtained a bachelor's degree in Business Administration from the National University of Singapore, a master's degree in Investment Management from Hong Kong University of Science and Technology, and a doctorate degree in Transformational Leadership (DTL) from Bethel Bible Seminary. He is an Independent Director of The Frasers Hospitality Assets Management Pte., Ltd. (新加坡輝盛國際資產管理有限公司) and EC World Asset Management Private Limited, an Independent Director of HDR Global Trading Limited and a member of the Financial Management Commission of the Hong Kong Administration Society (香港管理學會財務管理委員會). He previously served as the Deputy Chief Executive of BOCHK, head, Managing Director and President for the Southeast Asia region, and the head of the Financial Market Department in Asia (亞洲區金融市場部主管) of ABN AMRO Bank, a Director of Bank of China Group Insurance Company Limited, the Chairman of the Board of BOC Group Trustee Company Limited, the Chairman of BOCI-Prudential MPF (中銀保誠強積金), the Chairman of BOCHK Asset Management Limited, a member of the Board of Directors of the Civil Servants Institute of Prime Minister's Office Singapore (新加坡總理辦公室公務員學院) and a member of the Client Consulting Commission (客戶諮詢委員會) of Thomson Reuters.

Mr. Li Menggang is an Independent Non-Executive Director of the Company. Mr. Li obtained a Ph.D. in Economics and a post-doctoral degree in both Transportation and Communication Engineering and Theoretical Economics from Beijing Jiaotong University. He has been serving as a professor and doctoral supervisor at Beijing Jiaotong University, the Joint Dean of the National Academy of Economic Security (NAES) of Beijing Jiaotong University, the Director of Beijing Laboratory of National Economic Security Pre-Warning Project, the Chief Expert of Major Bidding Projects of the National Social Science Fund, the Project Review Expert of the National Social Science Fund and the Chairman of the Professional Committee of the Logistics Informatisation and Industrial Security System of the Institute of Electrical and Electronics Engineers (IEEE). He concurrently serves as the Vice President and the Deputy Director of the Expert Committee of China Human Resource Development Association, the Director of the Human Capital Institute, the Vice President of Guanghua Engineering Science and Technology Award Foundation (光華工程科技獎勵基金會), the Deputy Director of the Independent Board Committee of China Association for Public Companies, an Independent Director of Daqin Railway Co., Ltd. (a company listed on Shanghai Stock Exchange) and Hunan Copote Science & Technology Co., Ltd. (a company listed on Shanghai Stock Exchange). He served as an Independent Director of Sichuan Golden Summit (Group) Joint-stock Co., Ltd. (a company listed on Shanghai Stock Exchange) and an Independent Non-Executive Director of Yuxing InfoTech Investment Holdings Limited (a company listed on Hong Kong Stock Exchange).

Mr. Liu Qiao is an Independent Non-Executive Director of the Company. Mr. Liu obtained a bachelor of science degree in Economics and Mathematics from Renmin University of China, a master's degree in Economics from the Institute of Finance of People's Bank of China and a Ph.D. in Economics from University of California, Los Angeles in the United States and is a distinguished professor (特聘教授) of Changjiang Scholars Program. He has been serving as the Dean at the Guanghua School of Management of Peking University, professor of Finance and Economics and doctoral supervisor. He is also a member of Think Tank Committee of All-China Federation of Industry and Commerce (全國工商聯智庫委員會), the Economic Research Center of Chinese Kuomintang Revolutionary Committee, the expert panel of the Shenzhen Stock Exchange and the Listing Committee of ChiNext of Shenzhen Stock Exchange; an advisor of the post-doctoral stations of the CSRC, the Shenzhen Stock Exchange, the China Financial Futures Exchange and China Minsheng Banking Corp., Ltd. etc., the Vice Chairman of the China Enterprise Reform and Development Society (中國企業改革與發展研究會), an Independent Non-Executive Director of CSC Financial Co., Ltd. (a company listed on Hong Kong Stock Exchange), an Independent Non-Executive Director of Zensun Enterprises Limited (formerly known as ZH International Holdings Limited, a company listed on Hong Kong Stock Exchange) and an Independent Director of Beijing Capital Co., Ltd. (a company listed on Shanghai Stock Exchange). Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong, a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company and an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong.

Mr. Tian Hongqi is an Independent Non-Executive Director of the Company. Mr. Tian obtained a bachelor's degree in Finance and Accounting from the Faculty of Water Transportation Management of Shanghai Maritime University, and is a senior accountant. He previously served as the Chief Financial Officer and Chief Information Officer of COSCO SHIPPING Bulk Co., Ltd., the General Manager of the Finance Department of COSCO Container Lines Co., Ltd., the Director and the General Manager of the Financial Department of COSCO Japan, the Chief Financial Officer of COSCO Holdings (Singapore) Pte. Ltd. (中遠控股(新加坡) 有限公司), the General Manager of the Finance Department of the COSCO Container Transportation Operation Headquarters (中遠集裝箱運輸經營總部), and the Deputy Director of the Finance Department of COSCO.

Supervisors

Mr. Liu Yuan is the Chairman of the Board of Supervisors of the Company and an Employee Supervisor. Mr. Liu obtained a bachelor's degree in Global Economy from Renmin University of China, and is a senior economist. He served as the deputy section officer and section officer of the Management Office of Foreign Affairs Bureau (外事局管理處) of the People's Bank of China from August 1984 to October 1991. He was the Secretary (deputy division head level) of the Management Office and Deputy Chief of the Monetary Office of Foreign Exchange Affairs Division (外匯業務司金管處) of State Administration of Foreign Exchange from October 1991 to February 1994. He consecutively served as the Secretary (division head level) of the General Office (辦公廳正處級秘書), researcher of the regulatory office I of the banking division (銀行司監管一處調研員), head of the regulatory office III of the banking regulatory division II (銀行監管二司監管三處處長) and head of the regulatory office VII of the banking regulatory division II (銀行監管二司監管七處處長) of the People's Bank of China from February 1994 to July 2003. He served as the deputy head of the Banking Supervision Department II (銀行監管二部副主任) of the CBRC, director of CBRC Shanxi Bureau, director of CBRC Shenzhen Bureau, head of the Banking-related Case Audit Bureau (銀行業案件稽查局局長) of the CBRC and head of the Banking-related Consumer Protection Bureau (銀行業消費者權益保護局) of the CBRC from July 2003 to July 2014. He has been the Chairman of the Board of Supervisors of the Company since August 2014. He is concurrently a visiting professor of Renmin University of China and a member of Shenzhen Finance Development Decision-making Consultation Committee (深圳市金融發展決策諮詢委員會).

Mr. Peng Bihong is a Shareholder Supervisor of the Company. Mr. Peng graduated from Hunan College of Finance and Economics (湖南財經學院) majoring in Finance and obtained a master's degree in Economics from Wuhan University. Mr. Peng is a certified public accountant. He currently serves as a Standing Committee Member of the Party Committee and Chief Accountant of China Communications Construction Group (Limited), and concurrently Vice Chairman of Jiang Tai Insurance Brokers Co., Ltd. He has worked for China Poly Group Corporation Limited ("Poly Group") for nearly 20 years, serving successively as the Director of the Finance Department of China Poly Group Corporation, the General Manager of Poly Finance Company Limited, the Chief Financial Officer of Poly Real Estate Group Co., Ltd. and a Standing Committee Member of the Party Committee and the Chief Accountant of Poly Group, as well as the Chairman of Poly Finance Company Limited and Poly Investment Holdings Co., Ltd. respectively.

Mr. Wen Jianguo is a Shareholder Supervisor, a university graduate and an accountant. Mr. Wen is a Standing Committee Member of the Party Committee and Chief Accountant of Jizhong Energy Group Co., Ltd. (冀中能源集團有限責任公司), and concurrently the Chairman of Hebei Port Group Finance Company Limited and a Director of Caida Securities Co., Ltd. and Bank of Hebei Co., Ltd.. He served as a Director, a standing committee member of the Party Committee and Chief Accountant of Hebei Port Group Co., Ltd. (河北港口集團有限公司) from July 2009 to October 2020. He served as a Shareholder Supervisor of the Company from June 2010 to May 2013.

Mr. Wu Heng is a Shareholder Supervisor of the Company and a postgraduate from the Department of Accounting of Shanghai University of Finance and Economics. Mr. Wu obtained a master's degree in Management and is a senior accountant. He is the General Manager of Finance Affairs Department of SAIC Motor Corporation Limited, the General Manager of SAIC Motor Financial Holding Management Co., Ltd. and a Non-executive Director of Bank of Chongqing Co., Ltd. (a company listed on Hong Kong Stock Exchange). He consecutively served as a Deputy Manager and Manager of Planning and Finance Department as well as a Manager of Fixed Income Department of Shanghai Automotive Group Finance Company, Ltd. from March 2000 to March 2005. He consecutively served as a Division Head, Assistant to Executive Controller and the Manager of Accounting Division of Finance Department of SAIC Motor Corporation Limited from March 2005 to April 2009, the Chief Financial Officer of Huayu Automotive Systems Co., Ltd. (a company listed on Shanghai Stock Exchange) from April 2009 to May 2015, and concurrently serving as the Director and General Manager of Huayu Automotive Systems (Shanghai) Co., Ltd. (華域汽車系統(上海)有限公司) during the period from May 2014 to May 2015, and the Deputy General Manager of the Finance Affairs Department of SAIC Motor Corporation Limited from May 2015 to August 2019.

Mr. Ding Huiping is an External Supervisor of the Company. Mr. Ding obtained a doctorate degree in Enterprise Economics from University I Linkoeping in Sweden. He is currently a professor and a tutor of doctorate candidates in the School of Economics and Management of Beijing Jiaotong University, the head of PRC Enterprise Competitiveness Research Center, and Honorary Professor in the Business School of Duquesne University. He is concurrently an Independent Director of Beijing Dinghan Technology Group Co., Ltd. (北京鼎漢技術集團股份有限公司) (a company listed on Shenzhen Stock Exchange), Metro Land Corporation Ltd. (a company listed on Shanghai Stock Exchange), Shandong International Trust Co., Ltd. (a company listed on Hong Kong Stock Exchange) and China Haisum Engineering Co., Ltd. (a company listed on Shenzhen Stock Exchange). He consecutively served as an Independent Director of Huadian Power International Corporation Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He served as an Independent Director of the Company from May 2003 to May 2006.

Mr. Han Zirong is an External Supervisor of the Company. Mr. Han obtained a bachelor's degree in Business Economics from Jilin Finance and Trade College, and is an economist and certified public accountant. He is currently a partner of Shu Lun Pan Hong Kong CPA Limited, and he is concurrently an External Supervisor of Bank of Chengdu Corporation Limited (a company listed on Shanghai Stock Exchange) and an Independent Director of Xuzhou Rural Commercial Bank Co., Ltd. (徐州農村商業銀行股份有限公司). He served as a credit administrator of Industrial and Commercial Bank of China, Changchun Branch from August 1985 to October 1992. He served as an Assistant Director in the Audit Firm under Audit Bureau of Shenzhen Municipality from October 1992 to September 1997. He served as a managing partner of Shenzhen Finance Accounting Firm (深圳市融信會計師事務所) from October 1997 to October 2008. He served as a senior partner of Daxin Certified Public Accountants from October 2008 to October 2012. He served as an Independent Director of Bank of Chengdu Corporation Limited and Bank of Hainan.

Mr. Xu Zhengjun is an External Supervisor of the Company. Mr. Xu obtained a master's degree in the Maritime Transportation Management from Shanghai Maritime University and is a senior political engineer. He is currently an Independent Director of China Merchants RenHe Life Insurance Co., Ltd.. He previously served as the Section Chief and the Department Head of Shanghai Ocean Shipping Co., Ltd., the General Manager of the crew company and land property company of COSCO Container Lines Co., Ltd., the Assistant to General Manager of COSCO Container Lines Co., Ltd., the General Manager of Shanghai Ocean Shipping Co., Ltd., the Secretary of the Disciplinary Committee of COSCO Container Lines Co., Ltd., the General Manager of COSCO (HK) Industry & Trade Holdings Ltd., the Vice Chairman of Shenzhen Guangju Energy Co., Ltd. (a company listed on Shenzhen Stock Exchange), the Vice President and General Counsel of COSCO (Hong Kong) Group Limited and the Director of True Smart International Limited, the General Manager and Executive Director of COSCO International Holdings Limited, the Chairman of the Corporate Governance Committee of COSCO International and the Independent Director of Sinotrans Shipping Limited.

Mr. Wang Wanqing is an Employee Supervisor of the Company. Mr. Wang obtained a bachelor's degree in Chinese Language & Literature from Anhui University. Mr. Wang currently serves as the Business Director of the Head Office and the General Manager of the Audit Department of the Company. He is concurrently the executive member of the China Institute of Internal Audit and a member of professional committee under the supervisory committee of China Association for Public Companies. Mr. Wang started his career in Anhui University in July 1986. He worked in the General Office in Anhui Province from November 1991 to February 2001. He consecutively served as the Head, Assistant President and Vice President of the Hefei Branch of the Company from February 2001 to April 2007. He served as the General Manager of the Human Resources Department at the Head Office of the Company and the Deputy Director of the Labour Union from April 2007 to August 2012. He served as the Business Director of the Head Office, the General Manager of the Human Resources Department and the Deputy Director of the Labour Union of the Company from September 2012 to March 2014. He has been an Employee Supervisor of the Company since July 2018.

Mr. Liu Xiaoming is an Employee Supervisor of the Company. Mr. Liu obtained a Ph.D. in Applied Economics from Xi'an Jiaotong University, and is a senior economist. He currently serves as the Director of the Labor Union of the Head Office of the Company. He started his career in Shaanxi University of Finance and Economics in July 1987. He served as the deputy head and head of the business office II of Shaanxi Office of China Rural Development Trust and Investment Corporation (中國農村發展信託投資公司) from March 1994 to February 1997. He joined the Company in February 1997, and consecutively served as Manager of the Credit Department and General Manager of the Risk Control Department of Xi'an Branch, Assistant General Manager and Deputy General Manager of Urumqi Branch, Deputy General Manager of the Risk Management Department, Deputy General Manager of the Credit Management Department, General Manager of the Credit Approval Department and General Manager of the Credit Risk Management Department of the Head Office, and the General Manager of Zhengzhou Branch. He served as Executive Vice President of China Merchants Bank University, Director of the Training Center of the Head Office from December 2016 to June 2019, during which he concurrently served as General Manager of the Strategic Development Department of the Head Office.

Senior management

Mr. Tian Huiyu, please refer to Mr. Tian Huiyu's biography under the heading of "Directors" above.

Mr. Liu Yuan, please refer to Mr. Liu Yuan's biography under the heading of "Supervisors" above.

Mr. Liu Jianjun, please refer to Mr. Liu Jianjun's biography under the heading of "Directors" above.

Mr. Xiong Liangjun is the Secretary of the Party Discipline Committee of the Company. Mr. Xiong obtained a master's degree in Money and Banking from Zhongnan University of Finance and Economics and an EMBA degree from the Cheung Kong Graduate School of Business. He is a senior economist. He successively served as the Deputy Director-General of the CBRC Shenzhen Bureau, the Director-General of the CBRC Guangxi Bureau and the CBRC Shenzhen Bureau from September 2003 to July 2014. He has been the Secretary of the Party Discipline Committee of the Company since July 2014.

Mr. Wang Liang, please refer to Mr. Wang Liang's biography under the heading of "Directors" above.

Mr. Wang Jianzhong is an Executive Vice President of the Company. He obtained a bachelor's degree in Accounting from Dongbei University of Finance and Economics and is an assistant economist. Mr. Wang joined the Company in November 1991 and successively served as the General Manager of Changsha Branch, the Deputy General Manager of the Corporate Banking Department of the Head Office, the General Manager of Foshan Branch, the General Manager of Wuhan Branch, the Business Director of General Office of Corporate Finance Group of the Head Office and the General Manager of Beijing Branch of the Company since October 2002. He has served as an Executive Vice President of the Company since April 2019. He is concurrently a Director of China UnionPay Co., Ltd. and a member of Visa Asia Pacific Senior Advisory Council.

Mr. Shi Shunhua is an Executive Vice President of the Company. He obtained an MBA degree from China Europe International Business School and is a senior economist. Mr. Shi joined the Company in November 1996 and successively served as the Assistant General Manager and the Deputy General Manager of Shanghai Branch, the General Manager of Suzhou Branch, the General Manager of Shanghai Branch and the Business Director of the General Office of Corporate Finance Group under the Head Office of the Company since May 2003. He has served as an Executive Vice President of the Company since April 2019. He is concurrently the General Manager of Shanghai Branch of the Company and the Chairman of CMBFL and also serves as a member of the 13th Session of the Shanghai People's Political Consultative Committee.

Mr. Wang Yungui is an Executive Vice President of the Company. Mr. Wang obtained a master's degree from the Party School of the Central Committee of the Communist Party of China and is a senior economist. He successively served as the General Manager of the Department of Education and the General Manager of the Human Resources Department of the Industrial and Commercial Bank of China from July 2008 to December 2016, and served as the Secretary of the Disciplinary Committee of China Development Bank from December 2016 to March 2019. He has served as an Executive Vice President of the Company since June 2019.

Mr. Li Delin is an Executive Assistant President of the Company. Mr. Li obtained a doctorate degree in Economics from Wuhan University, and is a senior economist. He joined the Company in October 2013 and successively served as the Director of the Head Office, the General Manager of the Strategic Customer Department, the General Manager of the Strategic Customer Department and the General Manager of the Institutional Customer Department, and the General Manager of Shanghai Branch and the General Manager of Shanghai Pilot Free Trade Zone Branch of the Company. He has served as an Executive Assistant President of the Company since April 2019 and is concurrently the Chairman of the Board of Supervisors of Shenzhen Public Companies Association.

Ms. Liu Hui is an Executive Assistant President of the Company. Ms. Liu obtained a MBA degree in Finance from Tsinghua University and The Chinese University of Hong Kong, and is a senior economist. She joined the Company in April 1995 and successively served as the Deputy General Manager of the Planning and Finance Department of the Head Office, the General Manager of the Market Risk Management Department, the General Manager of the Asset and Liability Management Department and the General Manager of the Investment Management Department, and the President of the Investment Banking and Financial Market Department and the General Manager of the Asset Management Department. She has been serving as an Executive Assistant President of the Company since April 2019. She is concurrently the General Manager of the Asset Management Department of the Head Office of the Company, the Chairman of China Merchants Fund Management Co., Ltd., the Chairman of CMB Wealth Management Company Limited, the Chairman of CIGNA & CMB Life Insurance Co., Ltd. and the Chairman of CIGNA & CMB Asset Management Co., Ltd. (招商信諾資產管理有限公司), a Director of the Asian Financial Cooperation Association and a member representative of the Stock Issuance Standards Committee of ChiNext of Shenzhen Stock Exchange.

Joint company secretaries

Mr. Liu Jianjun, please refer to Mr. Liu Jianjun's biography under the heading of "Biography of Directors" above.

Ms. Ho Wing Tsz Wendy is a joint company secretary of the Company. Ms. Ho obtained a MBA degree from the Hong Kong Polytechnic University. She is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Institute of Chartered Secretaries (HKICS) and The Chartered Governance Institute (CGI) (formerly The Institute of Chartered Secretaries and Administrators (ICSA)) in the United Kingdom and is a council member, the Vice Chairlady of the Professional Development Committee and the Professional Services Group of HKICS and is a holder of the Practitioner's Endorsement issued by HKICS. Ms. Ho is an Executive Director of Corporate Services of Tricor Services Limited, and her professional practice area covers business consulting, corporate services for private, offshore and listed companies. Ms. Ho has over 20 years of experience in the corporate secretarial and compliance service field and is currently the company secretary or joint company secretary of a few listed companies on the Hong Kong Stock Exchange.

6.6 Evaluation and Incentive System for Directors, Supervisors and Senior Management

The Company offers remuneration to Independent Directors and External Supervisors according to the "Resolution in Respect of Adjustment to Remuneration of Independent Directors" and the "Resolution in Respect of Adjustment to Remuneration of External Supervisors" considered and passed at the 2016 First Extraordinary General Meeting; offers remuneration to Executive Directors and other senior management according to the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd."; and offers remuneration to Employee Supervisors in accordance with the policies on remunerations of employees of the Company. All of the Directors and Supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

The Board of Directors of the Company evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." and the "Assessment Standards of the H-Share Appreciation Rights Incentive Scheme for the Senior Management". According to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors" and the "Policies on Evaluation of Performance of Supervisors by the Board of Supervisors", the Board of Supervisors evaluates the annual duty performance of the Directors and Supervisors through monitoring their duty performance in the ordinary course, conducting duty performance interviews, reviewing and evaluating their annual duty performance records (including but not limited to, attendance of meetings, participation of researches, provision of recommendations and the term of office in the Company), the "Duty Performance Self-Evaluation Questionnaire" completed by each Director and Supervisor and work summaries, and then reports the same to the shareholders' general meeting and regulatory authorities. According to the "Policies on Evaluation of Duty Performance of Senior Management by the Board of Supervisors (Trial)", the Board of Supervisors evaluates the annual duty performance of senior management through monitoring their duty performance in the ordinary course and accessing to their duty performance information (including but not limited to, major speeches, major meeting minutes and the evaluation of the duty performance of senior management by the Board of Directors) and work reports, and then reports the same to the shareholders' general meeting and regulatory authorities.

6.7 Information on Employees

As of 31 December 2020, the Group had 90,867 employees[15] (including dispatched employees). The classification of our employees by profession is: 17,912 employees in corporate finance, 36,261 employees in retail finance, 4,381 employees in risk management, 14,624 employees in operation management, 8,882 employees in research and development, 897 employees in administrative and logistical support, and 7,910 employees in general management. The classification of our employees by educational background is: 22,757 employees with master's degrees and above, 59,771 employees with bachelor's degrees and 8,339 employees with junior college degrees or below.

Staff remuneration policy

The Company's remuneration policy is in line with its operation targets, cultural and value concepts. It aims to refine and improve its incentive and restrictive mechanisms, realise its corporate goals, enhance its organisational performance and minimise its operating risk. The remuneration policy adheres to the remuneration management principles featuring "strategic orientation, performance enhancement, risk control, internal fairness and market adaptation" and reflects the remuneration concept of "fixing remuneration based on positions and workload". In order to improve the remuneration incentive and restraint mechanism and mitigate various operating and management risks, the Company has established a mechanism related to remuneration deferred payment and performance-based remuneration recovery in accordance with regulatory requirements and operational management needs.

Staff education and training program

The Company has established a categorised, professional and digital talent training system, and adopts a diversified training method that combines online and offline training. The contents of training focus mainly on knowledge of its business and products, professional ethics and security, cultural values and leadership. During the reporting period, the Company fully completed all its training and education programs.

[15] Including employees of the Company, CMB Wing Lung Bank, CMB Financial Leasing, CMB International Capital, CMB Wealth Management, China Merchants Fund, CIGNA & CMB Life Insurance, Merchants Union Consumer, CMB Network Technology and CMB YunChuang.

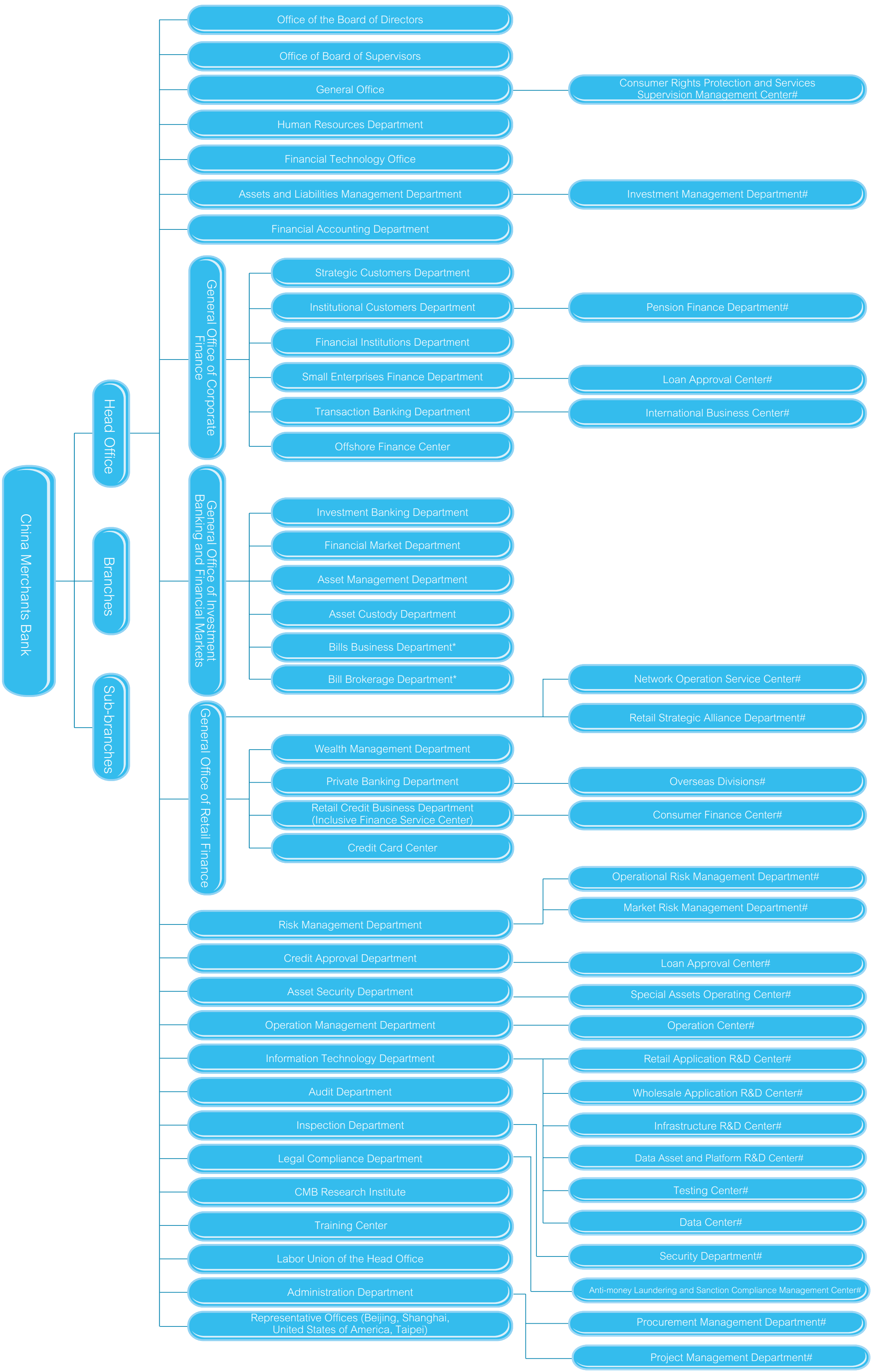
6.8 Branches and Representative Offices

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Asset scale (in millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,882	3,144,613
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,311	721,168
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	95	5,077	285,880
	Shanghai Pilot Free Trade Zone Branch	6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	19	36,580
	Nanjing Branch	199 Lushan Road, Jianye District, Nanjing	210005	83	3,074	200,360
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	70	2,760	196,331
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	33	1,171	81,532
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	32	1,372	121,544
	Wuxi Branch	6-107, 6-108 1st Financial Street, Binhu District, Wuxi	214001	19	783	51,374
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	14	572	37,703
	Nantong Branch	111 Gongnong Road, Nantong	226007	16	590	34,205
Bohai Rim	Beijing Representative Office	26/F, Building 3, No.1 Yuetan South Street, Xicheng District, Beijing	100045	1	12	/
	Beijing Branch	156 Fuxingmen Nei Dajie, Xicheng District, Beijing	100031	100	5,149	361,090
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	51	1,569	53,438
	Tianjin Branch	255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	43	1,713	88,024
	Jinan Branch	Building 1, District 4, No. 7000, Jingshi Road, High-tech Zone, Jinan	250012	62	1,878	85,890
	Yantai Branch	66 Zhujiang Road, Economic & Technological Development Area, Yantai	264006	17	573	20,428
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	17	489	24,203
	Tangshan Branch	45 Beixin Road West, Lubei District, Tangshan	063000	11	249	7,512
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510623	74	2,653	190,192
	Shenzhen Branch	2016 Shennan Boulevard, Futian District, Shenzhen	518001	117	5,113	432,956
	Fuzhou Branch	316 Jiangbinzhong Boulevard Road, Fuzhou	350014	36	1,236	66,751
	Xiamen Branch	18 Lingshiguan Road, Siming District, Xiamen	361012	31	1,018	60,057
	Quanzhou Branch	180 Jiangbin North Road, Fengze Street, Quanzhou	362800	17	499	27,026
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	28	930	52,666
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	29	1,045	66,496
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	61	1,659	53,796
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	37	1,211	42,416
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	39	1,112	45,780
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	24	710	23,969
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	126	2,748	163,777
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330008	58	1,525	93,986
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	44	1,508	59,504
	Hefei Branch	169 Funan Road, Hefei	230001	42	1,383	62,740
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	48	1,340	83,467
	Taiyuan Branch	265 Nan Zhong Huan Road, Xiaodian District, Taiyuan	030012	24	885	35,912
	Haikou Branch	Building C, Haian Yihao, 1 Shimao Road North, Haikou	570125	9	349	14,613

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Asset scale (in millions of RMB)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	58	1,749	78,006
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	29	923	35,981
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	70	1,954	98,585
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	50	1,710	100,752
	Urumchi Branch	2 Huanghe Road, Urumchi	830006	16	781	29,649
	Kunming Branch	1 Chongren Street, Wuhua District, Kunming	650021	52	1,313	61,806
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	22	637	26,342
	Nanning Branch	No.136-5 Minzu Avenue, Qingxiu District, Nanning	530028	20	552	33,254
	Guiyang Branch	West 2nd Tower, International Finance Center, Guanshanhu District, Guiyang	550009	16	489	26,970
	Yinchuan Branch	138 Beijingzhong Road, Jinfeng District, Yinchuan	750001	15	431	15,016
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	10	303	11,163
Outside Mainland China	Hong Kong Branch	31/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong	/	1	265	108,611
	USA Representative Office	23rd Floor, 535 Madison Avenue,New York, U.S.A	10022	1	1	/
	New York Branch	23rd Floor, 535 Madison Avenue,New York, U.S.A	10022	1	105	58,354
	Singapore Branch	1 Raffles Place, Tower2, #32-61, Singapore	048616	1	55	10,743
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	11012	1	2	/
	Luxembourg Branch	20 Boulevard Royal, L-2449, Luxembourg	L-2449	1	43	15,633
	London Branch	18/F, 20 Fenchurch Street, London, UK	/	1	51	15,137
	Sydney Branch	L39, GPT, 1 Farrer Place, Sydney, NSW	/	1	43	12,158
Other assignments	/	/	/	/	11	/
	CMB Wing Lung Bank	45 Des Voeux Road Central, Hong Kong	/	/	2,023	HK$380,027
	CMB Financial Leasing	21/F, 22/F, Unit One of 23/F, 24/F, Building 2, 1088 Lujiazui Ring Road, Shanghai	200120	/	304	192,201
	CMB International Capital	45-46/F, Champion Tower, 3 Garden Road, Central, Hong Kong	/	/	545	HK$43,714
	CMB Wealth Management	Level 17-20, CR Capital Tower, 2700 Keyuan South Road, Nanshan District, Shenzhen	518052	/	472	8,061
	China Merchants Fund	China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	660	8,237
	CIGNA & CMB Life Insurance	Unit 3102, China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	3,727	75,196
	Merchants Union Consumer	18/F, Building A4, Kexing Science Park, Nanshan District, Shenzhen	518057	/	988	108,881
	CMB YunChuang	1901, Building 5, Shenzhen New Generation Industrial Park, No.136 Zhongkang Road, Meidu Community, Meilin Street, Futian District, Shenzhen	518049	/	788	534
	CMB Network Technology	4/F, Building A, CMB Information R&D Building, Keji Zhongyi Road, Gaoxinzhong District, Nanshan District, Shenzhen	518057	/	4,775	1,267
Total	/	/	/	1,877	90,867[16]	/

[16] Including employees of the Company, CMB Wing Lung Bank, CMB Financial Leasing, CMB International Capital, CMB Wealth Management, China Merchants Fund, CIGNA & CMB Life Insurance, Merchants Union Consumer, CMB Network Technology and CMB YunChuang.

6.9 Organisational Structure of the Company



Note：#secondary department
*independent secondary department

Leveraging on technology to communicate belief

Fintech empowers online bill business with immediate receipt of payments, helping you win the battle against the pandemic without ever leaving your home

In 2020, CMB handled online discounting services for a total of 15,122 companies with discount credit amounting to RMB325.9 billion. Among them, 13,999 were micro-, small- and medium-sized enterprise customers, accounting for 93%.

Corporate Governance

7.1 Corporate Governance Structure

7.2 Overview of Corporate Governance

During the reporting period, the Company convened 2 shareholders' general meetings (11 proposals were reviewed and 5 reports were heard), 14 meetings of the Board of Directors (70 proposals were reviewed and 14 reports were heard), 7 meetings of the Board of Supervisors (25 proposals were reviewed and 15 reports were heard), 30 meetings of the special committees under the Board of Directors (103 proposals were reviewed and 17 reports were heard), 3 meetings of the special committees under the Board of Supervisors (5 proposals were reviewed), 1 meeting of Non-Executive Directors (1 report was heard). In addition, 3 special researches were organised by the Board of Directors, and 3 by the Board of Supervisors.

Having conducted thorough self-inspection pursuant to relevant requirements of the Announcement Regarding Implementation of Special Actions on Listed Companies Governance ([2020] No.69) issued by CSRC and the Notice Regarding Promoting the Principal Responsibility of Listed Companies in the Jurisdiction for Enhancing Governance to Achieve High Quality Development ([2020] No.128) issued by CSRC Shenzhen Office, the Company was not aware of any non-compliance of its corporate governance practice with the requirements set out in the CSRC's regulatory documents governing the corporate governance of listed companies.

7.3 Information about Shareholders' General Meetings

During the reporting period, the Company convened 2 shareholders' general meetings, namely the 2019 Annual General Meeting on 23 June 2020 and the 2020 First Extraordinary General Meeting on 9 September 2020.

For details of the resolutions, please refer to the documents on the shareholders' general meeting published on the websites of Shanghai Stock Exchange and the Company as well as the circulars regarding the shareholders' general meeting published on the websites of Hong Kong Stock Exchange and the Company. The notification, gathering, convening and voting procedures of the meeting complied with relevant requirements of the Company Law of the People's Republic of China, the Articles of Association of the Company and the Hong Kong Listing Rules. Relevant resolutions were published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, as well as on China Securities Journal, Shanghai Securities News and Securities Times. For more information on the attendance of Directors at the shareholders' general meeting, please refer to "Attendance of Directors at Relevant Meetings" of this report.

7.4 Board of Directors

The Board of Directors is an independent policy-making body of the Company, responsible for executing resolutions passed by the shareholders' general meetings; formulating of the Company's major principles and policies, including development strategy, risk preference, internal control and internal auditing systems, remuneration regulations; deciding on the Company's operating plans, investment and financing proposals; preparing annual financial budgets, final accounts and profit appropriation plans; and appointing and evaluating members of senior management. The Company adopts a system in which the President assumes full responsibility under the leadership of the Board of Directors. The senior management team has discretionary powers in terms of operation and makes daily decisions on operation management within the scope of authorisation by the Board of Directors, and the Board of Directors would not intervene in any specific matters in the Company's daily operation and management.

The Board of Directors of the Company facilitates scientific and reasonable decision-making through the establishment of a diversified directorship structure, and continues to improve the decision-making and operational efficiency through promoting the effective operation of special committees. The Board of Directors focuses on key issues, directions and strategies, and continues to strengthen the corporate philosophy of balanced, healthy and sustainable development. The Board of Directors ensures the Company to achieve dynamic and balanced development in quality, efficiency and scale through effective management of its strategy, risks, capital, remuneration, internal control and connected transactions, etc., thus providing a solid basis for the Company to enhance its operation and management capabilities.

7.4.1 Composition of the Board of Directors

At present, the Board of Directors of the Company has seventeen members, including eight Non-Executive Directors, three Executive Directors, and six Independent Non-Executive Directors. All the eight Non-Executive Directors are from large-state-owned enterprises where they hold key positions such as the Chairman of the Board of Directors, General Manager, Deputy General Manager or Chief Financial Officer. They have extensive experience in corporate management, finance and accounting fields. The three Executive Directors have been engaged in financial management for a long time with extensive professional experience. Among the six Independent Non-Executive Directors, there are renowned experts in accounting and finance, and financial experts, university professors and investment bankers with international vision, and they all have in-depth knowledge about the development of the banking industry at home and abroad. The two Independent Non-Executive Directors from Hong Kong are proficient in international accounting standards and the requirements of Hong Kong capital market. The Board of Directors of the Company has one female Director who, together with other Directors of the Company, offers professional opinions to the Company in their respective fields. Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and highly professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

The Company values the diversity of the members of the Board of Directors, and has formulated the relevant policies requiring that the Nomination Committee of the Company shall review the structure, number of Directors and composition (including their skills, knowledge and experience) of the Board of Directors at least once a year according to the Company's business operation, asset scale and shareholding structure, and put forward proposals in respect of any intended changes to the Board of Directors in line with the strategies of the Company.

The list of Directors of the Company is set out in Chapter VI of this report. To comply with the Hong Kong Listing Rules, the Independent Non-Executive Directors have been clearly identified in all the corporate communication documents of the Company which disclose their names.

7.4.2 Appointment, re-election and removal of Directors

In accordance with the Articles of Association of the Company, the Directors of the Company shall be elected or replaced by the shareholders at the shareholders' general meetings, and the term of office for the Directors shall be three years commencing from the date on which the approval from the PRC banking regulatory authority is obtained. A Director is eligible for re-election upon the expiry of his/her current term of office. The term of office for a Director shall not be terminated without any justification at a shareholders' general meeting before expiry of his/her term.

A Director may be removed by an ordinary resolution at a shareholders' general meeting before the expiry of his/her term of office in accordance with relevant laws and administrative regulations (however, any claim made in accordance with any contract shall not be affected).

The term of office for the Independent Non-Executive Directors of the Company shall be the same as that for other Directors of the Company. The term of office for the Independent Non-Executive Directors of the Company shall comply with the relevant laws and the requirements of the governing authority.

The procedures for appointment, re-election and removal of Directors, candidates' qualification and other requirements of the Company are set out in the Articles of Association and the implementation rules of the Nomination Committee of the Company. The Nomination Committee under the Board of Directors of the Company shall carefully consider the qualifications and experience of every candidate for a Director and recommends suitable candidates to the Board of Directors. Upon passing the candidate nomination proposal, the Board of Directors shall propose election of the related candidates at a shareholders' general meeting and submit the relevant resolution at a shareholders' general meeting for consideration and approval.

7.4.3 Responsibilities of Directors

During the reporting period, all Directors of the Company cautiously, earnestly and diligently exercised their rights under the Articles of Association of the Company and the domestic and overseas regulatory rules, devoted sufficient time and attention to the business of the Company, ensured that the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. All Directors of the Company were aware of their joint and individual responsibilities towards shareholders. During the year, the average attendance rate of Directors at meetings of the Board of Directors and the special committees under the Board of Directors was 99.45%.

The Independent Non-Executive Directors of the Company have presented their professional opinions on the resolutions reviewed by the Board of Directors, including offering independent written opinions on significant matters such as the profit appropriation plan, nomination and election of directors, engagement of accounting firms and related party transactions. In addition, the Independent Non-Executive Directors of the Company also gave full play to their professional advantages in the relevant special committees under the Board of Directors, and provided professional and independent opinions regarding corporate governance and operation management of the Company, thereby ensuring the scientific decision-making of the Board of Directors.

The Board of Directors of the Company reviewed its work during the reporting period, believing that it has effectively performed its duties and safeguarded the interests of the Company and its shareholders. The Company is of the opinion that all the Directors have devoted sufficient time to perform their duties.

The Company attached great importance to the continuous training of Directors, so as to ensure that they have a proper understanding of the operations and businesses of the Company, and that they are fully aware of their responsibilities under the relevant laws, regulations and systems, the regulatory requirements of the CBIRC, the CSRC, Shanghai Stock Exchange and Hong Kong Stock Exchange and the requirements of the Articles of Association of the Company. The Company has renewed the "Insurance for Liabilities of Directors, Supervisors and Senior Management" for all its Directors.

During the reporting period, the Board of Supervisors of the Company made an appraisal on the annual duty performance of the Directors, and the annual duty performance and cross-appraisal of the Independent Non-Executive Directors, and reported the appraisal results to the shareholders' general meeting.

7.4.4 Chairman of the Board of Directors and the President

The Chairman of the Board of Directors and the President of the Company has been served by different persons and their duties have been clearly defined in accordance with the requirements of the Hong Kong Listing Rules. Mr. Miao Jianmin serves as the Chairman of the Board of Directors and is responsible for leading the Board of Directors, ensuring that all the Directors are updated regarding issues arising at board meetings, managing the operation of the Board of Directors, and ensuring that all major issues are discussed by the Board of Directors in a constructive and timely manner. In order to enable the Board of Directors to discuss all major and relevant matters in time, the Chairman of the Board of Directors worked together with senior management to ensure that the Directors duly receive appropriate, complete and reliable information for their reference and review. Mr. Tian Huiyu serves as the President, responsible for the business operation of the Company and implementation of its strategies and business plans.

7.4.5 Attendance of Directors at relevant meetings

The following table sets forth the records of attendance of each Director at the meetings convened by the Board of Directors and the special committees under the Board of Directors and at the shareholders' general meeting held in 2020.

Directors	Board of Directors (1)	Special committees under the Board of Directors: Strategy Committee	Nomination Committee	Remuneration and Appraisal Committee	Risk and Capital Management Committee	Audit Committee	Related Party Transactions Management and Consumer Rights Protection Committee	Shareholders' General Meeting
	Actual times of attendance/Required times of attendance (2)							
Non-Executive Directors								
Miao Jianmin	5/5	/	1/1	/	/	/	/	/
Fu Gangfeng	14/14	3/3	/	/	/	/	/	2/2
Zhou Song	14/14	/	/	/	/	7/7	/	2/2
Hong Xiaoyuan	14/14	/	/	4/4	8/8	/	/	2/2
Zhang Jian	14/14	/	/	/	8/8	/	/	2/2
Su Min	14/14	/	/	/	/	/	4/4	2/2
Wang Daxiong	14/14	/	/	4/4	8/8	/	/	2/2
Luo Sheng	14/14	3/3	/	/	8/8	/	/	2/2
Li Jianhong (resigned)	9/9	3/3	3/3	/	/	/	/	2/2
Executive Directors								
Tian Huiyu	14/14	3/3	4/4	/	/	/	/	2/2
Liu Jianjun	14/14	/	/	/	/	/	4/4	2/2
Wang Liang	14/14	/	/	/	8/8	/	/	2/2
Independent Non-Executive Directors								
Leung Kam Chung, Antony	14/14	/	/	4/4	/	/	/	2/2
Zhao Jun	14/14	/	/	/	/	7/7	4/4	2/2
Wong See Hong	14/14	/	4/4	/	/	7/7	4/4	2/2
Li Menggang	14/14	/	4/4	4/4	/	7/7	/	2/2
Liu Qiao	14/14	/	4/4	4/4	7/8	/	/	2/2
Tian Hongqi	14/14	/	/	/	/	7/7	4/4	2/2

Notes: (1) During the reporting period, the Board of Directors of the Company held a total of 14 meetings, and the special committees under the Board of Directors held a total of 30 meetings.

(2) Actual number of attendance does not include attendance by proxy.

(3) Mr. Miao Jianmin has been Chairman of the Board of Directors of the Company and a Non-Executive Director since September 2020, and Mr. Li Jianhong has ceased to be Chairman of the Board of Directors of the Company and a Non-Executive Director since September 2020.

7.4.6 Securities transactions of Directors, Supervisors and relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for Directors and Supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry, so far as the Company is aware, all the Directors and Supervisors of the Company had complied with the aforesaid Model Code during the reporting period.

The Company has also established the guidelines for the relevant employees' dealings in the Company's securities, which are no less exacting than the Model Code.

7.4.7 Performance of duties by Independent Non-Executive Directors

The Board of Directors of the Company currently has six Independent Non-Executive Directors, which meets the requirement that at least one third of the total Directors of the Company shall be Independent Directors. The qualification, number and proportion of Independent Non-Executive Directors are in compliance with the relevant requirements of the CBIRC, the CSRC, Shanghai Stock Exchange and the Hong Kong Listing Rules. All the six Independent Non-Executive Directors of the Company are not involved in the circumstances set out in Rule 3.13 of the Hong Kong Listing Rules which would cause doubt on their independence. The Company has received from the Independent Non-Executive Directors their respective annual confirmation of independence which was made in accordance with Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Company is of the opinion that all the Independent Non-Executive Directors have complied with the requirement of independence set out in the Hong Kong Listing Rules. The majority of members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related Party Transactions Management and Consumer Rights Protection Committee under the Board of Directors of the Company are Independent Non-Executive Directors, and all of such committees are chaired by an Independent Non-Executive Director. During the reporting period, the six Independent Non-Executive Directors maintained communication with the Company through personal attendance at the meetings, on-site visits, research and investigations and conferences. They effectively performed their roles as Independent Non-Executive Directors by diligently attending the meetings held by the Board of Directors and its various special committees, actively expressing their opinions and suggestions and attending to the interests and requests of minority shareholders. For details of the attendance of Independent Non-Executive Directors at the meetings convened by the Board of Directors and its special committees, please refer to "Attendance of Directors at relevant meetings" in this report.

During the reporting period, the Independent Non-Executive Directors of the Company expressed their independent opinions on significant matters such as the profit appropriation plan, nomination and election of directors, engagement of accounting firms and related party transactions. They made no objection to the resolutions of the Board of Directors and others of the Company in the year.

According to the "Rules Governing Independent Directors' Work on Annual Reports" of the Company, the Independent Non-Executive Directors of the Company listened to the reports on the operation of the Company in 2020, believing that such reports had fully and objectively reflected the operation of the Company as well as the progress of significant matters in 2020. They recognised and were satisfied with the work performed and the results achieved in 2020. They also reviewed the unaudited financial statements of the Company, and discussed with the certified public accountants in charge of annual audit in respect of major matters and formed their written opinions; they reviewed the procedures for convening board meetings in the year, the decision-making procedures for matters on the agenda and the adequacy of information about such meetings; they reviewed the continuing connected transactions of the Company and made confirmations as required by the Hong Kong Listing Rules.

7.5 Special Committees under the Board of Directors

There are six special committees under the Board of Directors of the Company, namely the Strategy Committee, the Nomination Committee, the Remuneration and Appraisal Committee, the Risk and Capital Management Committee, the Audit Committee and the Related Party Transactions Management and Consumer Rights Protection Committee.

In 2020, all the special committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 30 meetings to study and review 120 significant issues, including strategic implementation and assessment, Fintech, profit appropriation, annual financial budget and final account, remuneration and appraisal, capital management plan, comprehensive risk management, internal control, related party transactions, consumer rights protection and construction of the Board of Directors, and reported their audit opinions and advices to the Board of Directors by submitting meeting minutes and holding on-site meetings, hence fully playing its role in assisting the Board of Directors to make scientific decisions.

The composition and duties of the six special committees under the Board of Directors of the Company as well as their work in 2020 are summarised as follows.

7.5.1 Strategy Committee

The Strategy Committee consists of Non-Executive Directors and Executive Directors. The incumbent members of the Strategy Committee are Miao Jianmin (Chairman), Fu Gangfeng, Luo Sheng, all being Non-Executive Directors and Tian Huiyu (an Executive Director). The Strategy Committee is mainly responsible for formulating the operation and management goals and the medium-to-long term development strategies of the Company, as well as supervising and examining the implementation of its annual operation plan and investment plan.

Main authorities and duties:

1. Formulate the operational goals and the medium-to-long term development strategies of the Company, and make an overall assessment on strategic risks;
2. Consider the material investment and financing plans and make proposals to the Board of Directors;
3. Supervise and review the implementation of the annual operation and investment plans;
4. Evaluate and monitor the implementation of the Board resolutions;
5. Make recommendations and proposals on the important issues for discussion and determination by the Board of Directors; and
6. Any other tasks delegated by the Board of Directors.

In 2020, the Strategy Committee focused on reviewing the inclusive finance development responsibility and annual working programs, the use of the Fintech Innovation Project Fund and other proposals, and incorporated inclusive finance development responsibility in the function of Strategy Committee of the Board of Directors so as to strictly implement guidelines on inclusive finance service delivered by the Central Committee of CPC, the State Council and regulatory authorities. It also made prospective deployment of the bank's business model for development stage 3.0 by continuously increasing investment in Fintech, ensuring the long-term and normalised investment in Fintech innovations to firmly promote the transformation toward "Digital Bank".

Moreover, the Strategy Committee also considered the annual financial budget and final account report, annual profit appropriation plan, the business plan implementation, human resources strategy implementation report, the authorisation and issuance of the financial bonds and certificates of deposit and other matters.

7.5.2 Nomination Committee

The majority of members of the Nomination Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Nomination Committee include Wong See Hong (Chairman), Li Menggang and Liu Qiao (all being Independent Non-Executive Directors), Miao Jianmin (a Non-Executive Director) and Tian Huiyu (an Executive Director). The Nomination Committee is mainly responsible for formulating the procedures and standards for election of the Directors and senior management, conducting preliminary verification on the qualification for appointment of the Directors and senior management and making proposals to the Board of Directors.

Main authorities and duties:

1. Review the structure, size and composition of the Board of Directors (including their expertise, knowledge and experience) at least once a year and make recommendations on any proposed changes to the Board of Directors to implement the strategies of the Company according to the Company's business operation, asset scale and shareholding structure of the Company;
2. Study the standards and procedures for selection of Directors and senior management, and make recommendations to the Board of Directors;
3. Conduct extensive searches for the qualified candidates for Directors and senior management;
4. Conduct preliminary examination on the candidates for Directors and senior management and make recommendations to the Board of Directors; and
5. Any other tasks delegated by the Board of Directors.

In 2020, the Nomination Committee assisted the Board of Directors in successfully completing the replacement process of the Chairman. It successively reviewed and approved the proposal on appointing Mr. Zhu Jiangtao as the Chief Risk Officer and the proposal on appointing Mr. Li Delin as the Executive Vice President, and regularly reviewed the member composition and structure of the Board of Directors and Special Committees to ensure compliance with various regulatory requirements.

7.5.3 Remuneration and Appraisal Committee

The majority of members of the Remuneration and Appraisal Committee were Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Remuneration and Appraisal Committee currently include Li Menggang (Chairman), Leung Kam Chung, Antony, Liu Qiao (all being Independent Non-Executive Directors), Hong Xiaoyuan and Wang Daxiong (both being Non-Executive Directors). The Remuneration and Appraisal Committee is responsible mainly for reviewing the remuneration management system and policies of the Company, formulating the remuneration package for the Directors and senior management, making proposals to the Board of Directors and supervising the implementation of such proposals.

Main authorities and duties:

1. Study the standards for assessment of Directors and senior management and make assessments and put forward proposals depending on the actual conditions of the Company;
2. Study and review the remuneration policies and proposals in respect of Directors and senior management, make recommendations to the Board of Directors and supervise the implementation of such proposals;
3. Review the systems and policies for remuneration management of the whole Bank; and
4. Any other tasks delegated by the Board of Directors.

In 2020, in order to continuously guide the cadres and employees of the Company to follow the strategic principle of "adhering to long-term strategies and tapping existing advantages", thoroughly implement the mid- and long-term strategic goals set by the Board of Directors, while aiding the senior management in confronting operation challenges and enhance cohesion, remaining true to the original intention of "building a bank that thrives for centuries" and sticking to the concept of "long-term service for the CMB", the Remuneration and Appraisal Committee successively review the staff costs of CMB and other proposals, continuously enriched the connotation of the incentive and restrictive mechanism, and studied and improved the incentive plan and promoted the implementation thereof; pursuant to the provisions of the H Share Appreciation Rights Scheme, the Remuneration and Appraisal Committee conducted validity appraisal and price adjustment in respect of the appreciation rights granted, which ensured the continuous implementation of the medium-to-long term incentive mechanism of the Company.

7.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee are Hong Xiaoyuan (Chairman), Zhang Jian, Wang Daxiong, Luo Sheng (all being Non-Executive Directors), Wang Liang (an Executive Director) and Liu Qiao (an Independent Non-Executive Director). The Risk and Capital Management Committee is mainly responsible for supervising the status of risk management by the senior management of the Company in relation to various major risks, making regular assessment on the risk policies, risk-withstanding ability and capital management status of the Company and submitting proposals on perfecting the management of risks and capital of the Company.

Main authorities and duties:

1. Supervise the status of risk control by the senior management of the Company in relation to credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;
2. Make regular assessment on the risk policies, management status, risk-withstanding ability and capital status of the Company;
3. Perform relevant duties under the Advanced Measurement Approach for Capital Measurement pursuant to the authorisation given by the Board of Directors;
4. Submit proposals on perfecting the management of risks and capital of the Company;
5. Arrange and instruct risk prevention works in accordance with the authorisation of the Board of Directors; and
6. Any other tasks delegated by the Board of Directors.

In 2020, the Risk and Capital Management Committee continued to implement the Board of Director's strategic principles of "quality first, efficiency in priority, risk controllable, and moderate scale", adhered to the long-term and prudent risk management philosophy, and always maintained a strategic focus on risk management. It assisted the Board of Directors in strengthening the management of comprehensive risk, major asset allocation, impact of pandemic, capital management and other areas and actively implemented the Board of Directors' target requirements of "outrunning the market and outperforming the peers".

The Risk and Capital Management Committee adhered to the regular meeting mechanism, assisted the Board of Directors to continuously strengthen the comprehensive risk management function and paid close attention to the impact of the pandemic on asset quality, stress testing, business continuity and major asset allocation. It remained vigilant at the hysteretic nature of financial risks, and emphasised maintenance of strategic focus under the new situation; continually attached importance to the formation of non-performing loans associated with credit cards and the risk of "joint debts", required to strengthen risk management and enhance risk pricing capacity; kept a watchful eye on the impact brought by Sino-US relationship to the operation and development of the Company in all aspects, and performed regular review on the working report on compliance of institutions in the United States; reviewed and heard the interim planning for capital management, internal capital adequacy assessment, risk appetite implementation, consolidated statement management and other reports, earnestly pursued the sound and prudent risk management culture and assisted the Board of Directors in further enhancing its risk management capability.

7.5.5 Audit Committee

The majority of members of the Audit Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Audit Committee are Tian Hongqi (Chairman), Zhao Jun, Wong See Hong, Li Menggang (all being Independent Non-Executive Directors) and Zhou Song (a Non-Executive Director). None of the above persons has ever served as a partner of the incumbent auditors of the Company. The Audit Committee is mainly responsible for examining the accounting policies and financial position of the Company; and is responsible for the annual audit work of the Company, proposing the appointment or replacement of external auditors and examining the status of the internal audit and internal control of the Company.

Main authorities and duties:

1. Propose the appointment or replacement of external auditors;
2. Monitor the internal audit system of the Company and its implementation, and evaluate the work procedures and work effectiveness of the internal audit department;
3. Coordinate the communications between internal auditors and external auditors;
4. Audit the financial information of the Company and disclosure of such information, and is responsible for the annual audit work of the Company, including issue of a conclusive report on the truthfulness, accuracy, completeness and timeliness of the information contained in the audited financial statements, and submit the same to the Board of Directors for consideration;
5. Examine the internal control system of the Company, and put forward the advices to improve the internal control of the Company;
6. Review and supervise the mechanism for the Company's employees to whistle blow any misconduct in respect of financial statements, internal control or otherwise, so as to ensure that the Company always handles the whistle blowing issues in a fair and independent manner and takes appropriate actions;
7. Examine the accounting policies, financial reporting procedures and financial position of the Company; and
8. Any other tasks delegated by the Board of Directors.

In 2020, based on the quarterly regular meeting system, the Audit Committee mainly reviewed the regular reports and internal and external audit reports to supervise and verify the truthfulness, accuracy and timeliness of information set out in the financial statements. The Company obtained the findings of internal audits in a timely manner and strengthened bank-wide self-examination and the rectification of and the accountability for the problems concerned by relevant regulators, promoted an effective communication mechanism between internal and external audits by constantly enhancing the communication with internal and external auditors, attached great importance to the construction of the auditing system, carried out special research on the auditing system to push forward the improvement of auditing techniques. The Audit Committee gave full play to its important role in monitoring operation management, disclosing risks and issues and improving management levels, and effectively discharged relevant functions and constantly promoted enhancement of management level.

According to the "Work Procedures on Annual Reports for Audit Committee under the Board of Directors" adopted by the Company, the Audit Committee under the Board of Directors of the Company performed the following duties in preparing and reviewing the annual report for 2020:

1. The Audit Committee considered and discussed the accounting firm's audit plan for 2020 and the unaudited financial statements of the Company.
2. In the course of annual audit and after the issue of a preliminary audit opinion by the auditors in charge of annual audit, the Audit Committee reviewed the report on the operation of the Company for 2020, exchanged opinions on the significant matters and audit progress with the auditors in charge of annual audit, reviewed the financial statements of the Company, and then formed written opinions on the above issues.
3. Before the convening of the annual meeting of the Board of Directors, the Audit Committee reviewed the Company's Annual Report for 2020 and agreed to submit the same to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and submitted to the Board of Directors the conclusion report prepared by the auditors in charge of annual audit in respect of the audit work of the Company in 2020.

7.5.6 Related Party Transactions Management and Consumer Rights Protection Committee

The majority of members of the Related Party Transactions Management and Consumer Rights Protection Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Related Party Transactions Management and Consumer Rights Protection Committee are Zhao Jun (Chairman), Wong See Hong and Tian Hongqi (all being Independent Non-Executive Directors), Su Min (a Non-Executive Director) and Liu Jianjun (an Executive Director). The Related Party Transactions Management and Consumer Rights Protection Committee is mainly responsible for inspection, supervision and review of related party transactions of the Company and protection of the legitimate rights and interests of consumers.

Main authorities and duties:

1. Identify related parties of the Company pursuant to relevant laws and regulations;
2. Inspect, supervise and review the major related party transactions and continuing connected transactions, and control the risks associated with related party transactions;
3. Review the administrative measures on related party transactions of the Company, and monitor the establishment and improvement of the related party transaction management system of the Company;
4. Review the announcements on related party transactions of the Company;
5. Review the strategies, policies and objectives of the consumer rights protection work of the Company;
6. Regularly listen to the report on the implementation of the consumer rights protection work of the Company and the relevant resolution, and make recommendations to the Board of Directors in respect of the relevant work;
7. Supervise and evaluate the comprehensiveness, timeliness and effectiveness of the consumer rights protection work of the Company, the duty performance of senior management in the protection of consumer rights, and the information disclosure of consumer rights protection work; and
8. Any other tasks delegated by the Board of Directors.

In 2020, the Related Party Transactions Management and Consumer Rights Protection Committee reviewed the fairness of the related party transactions, assisted the Board of Directors to ensure the legitimacy and compliance of related party transactions, carried out relevant responsibilities of consumer right protection in accordance with the regulatory requirements, reviewed and approved the 2019 Annual Related Party Transaction Report, the List of Related Parties in 2020, the Authorisation Letter Issued by the Board of Directors to the Senior Management of Singapore Branch for Approvement of Related Party Transaction Business and other proposals, reviewed and approved the related party transactions of the Company with its related parties, including Dajia Life Insurance Co., Ltd., China Communications Construction Group Co., Ltd. and CMB Wealth Management Company Limited, and reviewed and approved the report on consumer rights protection and other reports.

7.6 Corporate Governance Functions

During the reporting period, the Board of Directors has performed the following duties on corporate governance:

1. Formulate and evaluate the policies and practices on corporate governance of the Company and make certain amendments as it deems necessary, so as to ensure the validity of those policies and practices;

2. Evaluate and supervise the trainings and the improvement of professional competence of Directors and senior management;

3. Evaluate and supervise the policies and practices of the Company for compliance with laws and regulatory requirements;

4. Formulate, evaluate and supervise the Code of Conduct and the Compliance Handbook applicable to the Directors and employees of the Company;

5. Review the compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance; and

6. Manage, control, monitor and assess the risks of the Company and evaluate the internal control status of the Company. The Board of Directors is of the opinion that the risk management and internal control systems of the Company are effective.

7.7 Board of Supervisors

The Board of Supervisors is a supervisory body of the Company and is accountable to the shareholders' general meetings, and effectively oversees the strategic management, financial activities, internal control, risk management, legal operation, corporate governance, as well as the duty performance of the Board of Directors and senior management with an aim to protect the legitimate rights and interests of the Company, its shareholders, employees, creditors and other stakeholders.

7.7.1 Composition of the Board of Supervisors

As of the end of reporting period, the Board of Supervisors of the Company consists of nine members, including three Shareholder Supervisors, three Employee Supervisors and three External Supervisors. The proportion of Employee Supervisors and External Supervisors in the members of the Board of Supervisors each meets the regulatory requirements. The three Shareholder Supervisors are from large- state-owned enterprises where they serve important posts and have extensive experiences in business management and professional knowledge in finance and accounting; the three Employee Supervisors have long participated in banking operation and management, and thus accumulated rich professional experience in finance; and the three External Supervisors have professional expertise and rich practical experience in economic management and research, accounting, corporate governance and other areas. Members of the Board of Supervisors of the Company have professional ethics and professional competence required for their performance of duties which ensures the effective supervision by the Board of Supervisors.

A Nomination Committee and a Supervisory Committee are established under the Board of Supervisors.

7.7.2 How the Board of Supervisors performs its supervisory duties

The Board of Supervisors performs its supervisory duties primarily by: holding regular meetings of Board of Supervisors and special committees, attending shareholders' general meetings, board meetings and its special committee meetings, attending various meetings on operation and management held by the senior management; reviewing various documents of the Company, reviewing work reports and specific reports of the senior management, conducting opinion exchanges and discussions, carrying out special investigations and surveys at domestic and overseas branches of the Company on a collective or separate basis and having talks with Directors and the senior management over their duty performance in the year, communicating with external auditors regularly, etc. By doing so, the Board of Supervisors comprehensively monitors the operation and management status, risk management status and internal control status of the Company as well as duty performance of the Directors and the senior management, and puts forward the constructive and targeted operation and management advice and supervision opinions.

7.7.3 Duty performance of the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors convened a total of seven meetings, of which two were on-site meetings and five were meetings convened and voted by correspondence. 25 proposals regarding development strategies, business operation, financial activities, internal control, risk management, internal audit, related party transactions, corporate governance, social responsibilities, anti-money laundering work, evaluation of the duty performance of Directors, Supervisors and senior management and audit on the resignation of senior management were considered, and 15 special reports involving implementation of risk appetite, disposal of non-performing assets, capital adequacy ratio, consolidated management, prevention and control of crimes, consumer rights protection were delivered or reviewed at those meetings.

In 2020, the Company convened two shareholders' general meetings and four on-site board meetings. Supervisors attended the shareholders' general meeting and were present at all the on-site board meetings, and supervised the legitimacy and compliance of convening the shareholders' general meeting and the board meetings, voting procedures, the Directors' attendance at those meetings, expression of opinions and voting details.

During the reporting period, all the three External Supervisors were able to perform their supervisory duties independently. The External Supervisors discharged their supervisory duties by attending meetings of the Board of Supervisors, convening special committee meetings of the Board of Supervisors, participating in shareholders' general meeting and meetings of the Board of Directors or any of its special committees, participating in the Board of Supervisors' investigations and surveys conducted at branch level on a collective or separate basis, proactively familiarising themselves with the operation and management and the implementation of strategies of the Company, and actively participating in studies and reviews on significant matters. During the adjournment of the meetings of the Board of Directors and the Board of Supervisors, the External Supervisors reviewed various documents and reports of the Company, and exchange opinions with the Board of Directors and senior management in respect of the problems concerned in a timely manner, thereby playing an active role in enabling the Board of Supervisors to perform their supervisory duties.

During the reporting period, the Board of Supervisors of the Company had no objection to each of the supervisory matters.

7.7.4 Operation of the special committees under the Board of Supervisors

The Nomination Committee and the Supervisory Committee are established under the Board of Supervisors, each consisting of four Supervisors, and those committees were chaired by an External Supervisor.

The Nomination Committee under the Board of Supervisors

As at the end of the reporting period, the members of the Nomination Committee of the Eleventh Session of the Board of Supervisors were Ding Huiping (Chairman), Peng Bihong, Wen Jianguo and Liu Xiaoming. The major duties of the Nomination Committee are as follows: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of Supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for Supervisors; to undertake preliminary examination on the qualifications of the candidates for Supervisors nominated by Shareholders and provide relevant recommendations; to supervise the procedures for election of Directors; to evaluate the Board of Directors, Board of Supervisors and senior management and the duty performance of their members, and submit reports to the Board of Supervisors; to supervise whether the remuneration management system and policies of the whole Bank and the remuneration package for its senior management are scientific and reasonable.

In 2020, the Nomination Committee under the Board of Supervisors held one meeting at which it reviewed and considered the report of the Board of Supervisors on the duty performance of the Board of Directors, the Board of Supervisors and the senior management and their members in 2019.

The Supervisory Committee under the Board of Supervisors

As at the end of the reporting period, the members of the Supervisory Committee of the Eleventh Session of the Board of Supervisors were Han Zirong (Chairman), Wu Heng, Xu Zhengjun and Wang Wanqing. The major duties of the Supervisory Committee are to formulate the supervisory plans for performance of supervisory duties by the Board of Supervisors; to formulate the supervisory plans for financial activities of the Company and conduct relevant examinations; to supervise the adoption by the Board of Directors of prudent business philosophy and value standards and its formulation of suitable development strategies in line with the actual situations of the Company; to conduct supervision and assessment on the important financial decisions of the Board of Directors and the senior management and their implementations, the establishment and improvement of the internal control governance structure and the overall risk management governance structure and the division of duties of relevant parties and their duty performance; to formulate the specific plans for reviewing the operation decisions, internal control and risk management of the Company under the authorisation of the Board of Supervisors when necessary; to formulate the plans for conducting resignation audit on Directors, President and other senior management when necessary.

In 2020, the Supervisory Committee under the Board of Supervisors convened a total of two meetings at which it reviewed and considered the work plan of the Board of Supervisors for 2020 and the audit on the resignation of senior management. In addition, members of the Supervisory Committee under the Board of Supervisors were also present at various on-site meetings convened by the Risk and Capital Management Committee and Audit Committee under the Board of Directors. They also reviewed the consideration and discussion of the above special committee on the financial decisions, risk management, capital management, internal control compliance, internal audit and other aspects of the Company, and offered comments and suggestions on some of the issues.

7.8 Trainings and Investigations/Surveys Conducted by Directors and Supervisors during the Reporting Period

During the reporting period, the Board of Directors and the Board of Supervisors of the Company organised six investigations/surveys, through which the duty performance, decision-making and effectiveness of supervision of our Directors and Supervisors continued to improve.

During the reporting period, the Board of Directors of the Company organised three investigations/surveys/visits for the Directors, which involved visits to some tier-1 and tier-2 branches to have deep understanding of the operation and management of its branches and sub-branches, reviewed the report of the branches on operation and management, strategic transformation, risk management and control, internal control management and consumer rights protection and put forward targeted opinions and suggestions. Meanwhile, the Board of Directors of the Company conducted special investigations and surveys on the construction of audit system, reviewed the report on the development and work practices of the audit system of the Company and provided constructive opinions and suggestions. In addition, the Non-Executive Directors of the Company reviewed the "Report on Promoting the Sustainable Development of Inclusive Finance with Fintech《關於以金融科技推進普惠金融持續發展的匯報》" to have deeper understanding of the development of the small- and micro-enterprise loan business of the Company, and guide the Company to operate, expand, improve and strengthen inclusive finance business.

During the reporting period, the Board of Supervisors of the Company overcame the adverse effects of the pandemic on investigations and surveys, innovated research methods, actively grasped the window period for mitigation of the pandemic, and completed the annual investigations and surveys with quality and quantity. During the period of pandemic control, members of the Board of Supervisors provided their opinions and suggestions on management by written form instead of on-site investigations and surveys in the first quarter. During the mitigation of the pandemic, two domestic collective surveys were conducted, involving five branches and sub-branches. During the surveys, the Board of Supervisors understood and learned the operation and management information of the branches from various aspects such as the operation indicators, performance appraisal, risk management and asset quality, basic management work, internal audit findings, internal control and compliance management, and external supervision and inspection status of the branches. Based on the issues, the Board of Supervisors conducted in-depth analysis and discussions on issues such as the implementation of openness and integration policy, risk management, basic management and employee behavior management that the Board of Supervisors focused on, and put forward targeted suggestions and opinions. The Board of Supervisors distributed four issues of the "Work Summary of the Board of Supervisors《監事會工作要情》" to deliver its supervisory opinions and suggestions as well as research results to the Board of Directors and senior management, coordinated and promoted the solving of difficulties and problems of the branches, and also submitted the rational feedback of the branches on the optimisation of the work of Head Office. Through adjustment and optimisation, the researches of the Board of Supervisors have formed a closed-loop full process of information collection, problem sorting, supervised solution and communication and feedback. The mechanism has been running smoothly with remarkable effect.

During the reporting period, the Directors of the Company participated in relevant trainings or researches according to the requirements on duty performance, the contents of which include corporate governance, policies and regulations, banking operation and management and compliance in anti-money laundering and sanctions. The above trainings or researches helped improve the duty performance of the Directors, ensured that the Directors were fully aware of the information required for duty performance, and continued to make contributions to the Board of Directors of the Company.

During the reporting period, all Supervisors of the Company participated in online training on the theme of "Anti-Money Laundering and Sanction Compliance" in accordance with regulatory requirements, systematically studied the duties of anti-money laundering, basic system of anti-money laundering, economic sanctions and compliance and other content, completed and passed the relevant training tests, and further improved the ability of the Board of Supervisors to perform duties in anti-money laundering and anti-terrorism financing.

7.9 Company Secretary under Hong Kong Listing Rules

During the reporting period, Mr. Liu Jianjun and Ms. Ho Wing Tsz Wendy of Tricor Services Limited, an external services provider, are the joint company secretaries of the Company under Hong Kong Listing Rules. Mr. Liu Jianjun is the major contact person of the Company on internal issues.

During the reporting period, Mr. Liu Jianjun and Ms. Ho Wing Tsz Wendy attended the relevant professional trainings for not less than 15 hours in compliance with the requirements of Rule 3.29 of Hong Kong Listing Rules.

7.10 Misconduct Reporting and Monitoring

During the reporting period, the Company had no internal cases that inflict huge losses, or external cases or incidents of theft or robbery, or material safety issues.

7.11 Communication with Shareholders

Investor relations

In 2020, the Company remained focus on investors, actively responded to the impact of the pandemic, innovated organisational forms, and continued to strengthen its communication with the capital market through webcasts, conference calls and other methods. Meanwhile, based on its thoughts about the historical position, strategic choices and impact of the pandemic, the Company comprehensively and thoroughly introduced its stable fundamentals as well as the logic and strategy behind its differentiated development to various domestic and foreign investors and analysts, and addressed the impact and effects of the pandemic, LPR reform, Fintech and other issues concerned by the capital market in a timely and efficient manner. The Company's full-year performance in the capital market achieved the goal of "outrunning the market and outperforming the peers". The valuation of the Company's A+H Shares remained at the forefront in the domestic banking industry, the full-year growth rate exceeded the market and industry averages.

During the reporting period, the Company held two annual and interim results press conferences through webcast, and one quarterly results press conference and one exchange meeting via conference call. 1,029 and 934 investors, analysts and media reporters participated in the annual and interim results press conferences, respectively, and the market response was positive. In 2020, the Company, for the first time, organised and disclosed meeting records in a timely manner after the annual results press conference, quarterly results exchange meeting and annual general meeting, which helped to provide the capital market with more comprehensive and true information of China Merchants Bank.

The Company attached great importance to investor relations management. Chairman Li Jianhong (resigned) and President Tian Huiyu attended the 2019 annual results press conference, and President Tian Huiyu also attended the 2020 interim results press conference. They gave detailed answers to market and media concerns. Following the release of 2019 annual results and 2020 interim results, President Tian Huiyu and other senior management formed three teams to conduct online road-shows with the investors of A Shares and H Shares, covering more than 240 domestic and foreign institutional investors. Issues such as strategic vision, Fintech transformation, business development, advantages and characteristics have been fully and intensively discussed. Given the increased instability in market sentiment since the pandemic outbreak, investors and senior management of the Company have a stronger need for communication. Following the 2020 first quarterly results press conference, Executive Vice President Liu Jianjun and Executive Vice President Wang Liang led respective teams to conducted full and effective communication with more than 150 investors of A Shares and H Shares of the Company and analysts on issues such as the first quarterly results and the impact of the pandemic on the Company. Following the release of the 2020 third quarterly results, the Company organised relevant business departments across the Bank to hold an exchange meeting with investors and analysts via telephone to actively respond to capital market concerns such as the results and asset quality of the Company.

In 2020, the Company participated in several investment strategy meetings held by a total of 46 domestic and foreign investment banks and securities companies. Through 97 discussions in "one-to-one" or "one-to-many" meetings, the Company has met with more than 900 domestic and foreign institutional investors, representing a year-on-year increase in the number of investors met. The Company actively received 127 visits and telephone surveys by institutional investors, and conducted discussions with more than 350 investors. We also answered hundreds of phone calls from our investors and processed hundreds of messages from our investors on the Company's official website, investors' mailbox, and SSE E-interaction. The above measures satisfied the needs of our investors and analysts at home and abroad to communicate with the Company in an effective manner.

Information disclosure

The Board of Directors, the Board of Supervisors and senior management of the Company attached great importance to the Company's information disclosure. Relying on good corporate governance, complete internal control and sound information disclosure system, the Company continued to strengthen information disclosure management to effectively protect the rights of all shareholders, especially small and medium investors, and obtained information in a timely, accurate and equal manner.

During the reporting period, the Company strictly complied with relevant laws and regulations on information disclosure at home and abroad to disclose all major information truthfully, accurately, completely, timely and fairly, and disclosed a total of 230 documents on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, including periodic reports, holding announcements, corporate governance documents and shareholder circulars, with approximately 1.88 million words in total. No information disclosure errors have occurred. While fulfilling the statutory information disclosure obligations, the Company further expanded and deepened the initiative and transparency of information disclosure, proactively released preliminary financial data for the annual results, and presented the effects of strategy implementation and differentiated competitive advantages from multiple perspectives in its periodic reports to reasonably guide market expectations. Under the macroeconomic and financial situation, the Company proactively disclosed the impact of the pandemic on its business development and asset quality management and control after fully considering the major issues that the investors were concerned about, which obtained recognition from the capital market. In addition to regular disclosure channels, the Company actively explored and adopted H5 and other forms to intensively display the core data indicators of the annual report to enhance the reading experience of investors.

The Company has established a comprehensive and complete information disclosure system. During the reporting period, the Company enhanced the management of information disclosure and insider trading by strengthening compliance education and daily supervision and regularly sending reminders. The Company clarified the scope and quantitative standards for the submission of material and sensitive information, which effectively improved the accuracy and timeliness of material and sensitive information submitted, and further enhanced the compliance awareness of the entities responsible for information disclosure across the Bank. Meanwhile, the Company continued to adjust and optimise the information disclosure process based on work practices, and continue to strengthen the implementation of relevant rules and regulations for information disclosure.

The Company strived to continuously improve the initiative and transparency of information disclosure, and its information disclosure practice met with recognition from the regulatory authorities. The Company received the highest grade of "A" in the annual appraisal of information disclosure of listed companies organised by the SSE.

7.12 Shareholders' Rights

Convening of extraordinary shareholders' general meetings

An extraordinary shareholders' general meeting shall be convened by the Board of Directors within two months upon request in writing by shareholders individually or jointly holding more than 10% of the Company's voting shares.

Making proposals at the shareholders' general meetings

If the Company convenes a shareholders' general meeting, shareholders individually or jointly holding more than 3% of the total issued voting shares of the Company may submit interim proposals in writing to the Company 15 working days before the convening of the shareholders' general meeting and submit the same to the convenor. The convenor shall issue a supplemental notice to the shareholders' general meeting and announce the contents of the interim proposals within two working days after receiving the proposals.

Convening of extraordinary board meeting

An extraordinary board meeting may be held if it is requisitioned by shareholders representing more than one-tenth (10%) of the voting rights. The Chairman shall convene the extraordinary board meeting within ten (10) days upon receiving such proposal.

Making inquiries to the Board of Directors

Shareholders are entitled to review the information on the Company (including the Articles of Association of the Company, the status of share capital, the minutes of the shareholders' general meeting, resolutions of board meetings, resolutions of meetings of the Board of Supervisors, financial and accounting reports) in accordance with the provisions of the Articles of Association of the Company upon the submission of written documents certifying the class and quantity of shares of the Company held by the shareholders, the identity of whom has been verified by the Company.

Cash dividend policies

The Company has formulated its cash dividend policies. For details, please refer to the "formulation and implementation of the Company's cash dividend policies" in Chapter III.

7.13 Major Amendments to the Articles of Association of the Company

During the reporting period, the Company did not amended the Articles of Association of the Company.

7.14 Statement Made by the Directors about Their Responsibility for the Financial Statements

The senior management of the Company provided the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The Directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2020 to present a true view of the operating results of the Company. So far as the Directors are aware, there is no material uncertainty related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

7.15 Internal Control

During the reporting period, according to the unified deployment of the CBIRC, the Company carried out the "look back" on the disorder rectification work carried out since 2017. Focusing on the main points of disorder rectification work in 2020, the Company conducted in-depth self-examination and self-correction as well as comprehensive rectification, adhered to the principle of linking work at selected spots with that in entire areas and addressing the symptoms and root causes, and continued to build a long-lasting mechanism to contain various violations and risk cases, so as to steadily promote the improvement and promotion of internal management. The main activities include: carrying out an in-depth special campaign to improve the basic management across the Bank; continuing to strengthen the compliance training and case warning education for the employees, guiding them to firmly establish the awareness of compliance with laws, rules and disciplines, and actively fostering a compliance culture in which "we cannot violate regulations, dare not violate regulations, and are unwilling to violate regulations"; continuing to conduct investigations on employees' abnormal behaviour and special investigations, identifying and eliminating all kinds of potential risks in a timely manner. To copy with the impact of the COVID-19 pandemic on the on-site inspections, the Company further promoted the openness and sharing of the auditing "Hawk Eye" system to the Head Office business departments and the branches, organised the business lines and the branches to make full use of inspection tools, such as data model, audio and video recording and business image system, so as to continue to strengthen the off-site inspection and data verification, conscientiously perform the duty of business supervision, and effectively guarantee the compliance operation and healthy development of the Company's various businesses.

During the reporting period, the Company organised evaluation campaigns on the status of internal control of the whole Bank in 2020. As reviewed by the Board of Directors of the Company, no significant defects in terms of completeness, reasonableness and effectiveness were found in the Company's internal control system. For details, please refer to the "Report of Assessment on Internal Control of China Merchants Bank Co., Ltd. in 2020", and the "Auditors' Report on Internal Control of China Merchants Bank Co., Ltd. in 2020" issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP with standard unqualified opinions.

7.16 Internal Audit

The Company has an independent and vertical internal audit management system. The Board of Directors shall assume the ultimate responsibility for the independence and effectiveness of internal audit, being responsible for reviewing and approving the constitutional documents of internal audit, establishing the audit organisation system, formulating the medium-to-long term audit plan and the annual audit plan, appointing the head officer of the audit department, providing necessary support to carry out internal audit work independently and objectively, and assessing the independence and effectiveness of internal audit work. The Head Office has an Audit Department, which shall be accountable to the Board of Directors and the Audit Committee under the Board of Directors and report its work to such Committee. It is under the guidance of the Board of Supervisors and senior management, which shall undertake specific internal audit duties. The Audit Department consists of nine audit divisions, which strengthens the ongoing audit and rectification following-up of regional branches and institutions. The Audit Department under the Head Office has nine specialised teams to strengthen off-site audit work such as "research, analysis, organisation and guidance" and enhanced the support and guidance to the audit divisions. Meanwhile, four corresponding audit teams were set up to strengthen the auditing of departments under Head Office, overseas institutions, anti-money laundering work and credit card business.

In 2020, the Company revised the "Internal Audit Charter of China Merchants Bank Co., Ltd." to further clarify the content of continuous audit work, emphasise the supervision role of continuous audit, promptly give various risk warnings, and insist on the transferring from correction after the occurrence of malpractice to correction before or amid the occurrence of malpractice. With an emphasis on risk prevention and control, the Company paid close attention to its strategies, risks and regulatory concerns to strengthen audit and supervision over key areas, key risks and other key aspects. Meanwhile, the Company stressed on special rectifications to strengthen audit rectifications, proposed audit suggestions timely, and promoted the continuous improvement of mechanism, processes and systems, thus contributing to the stable operation across the Bank.

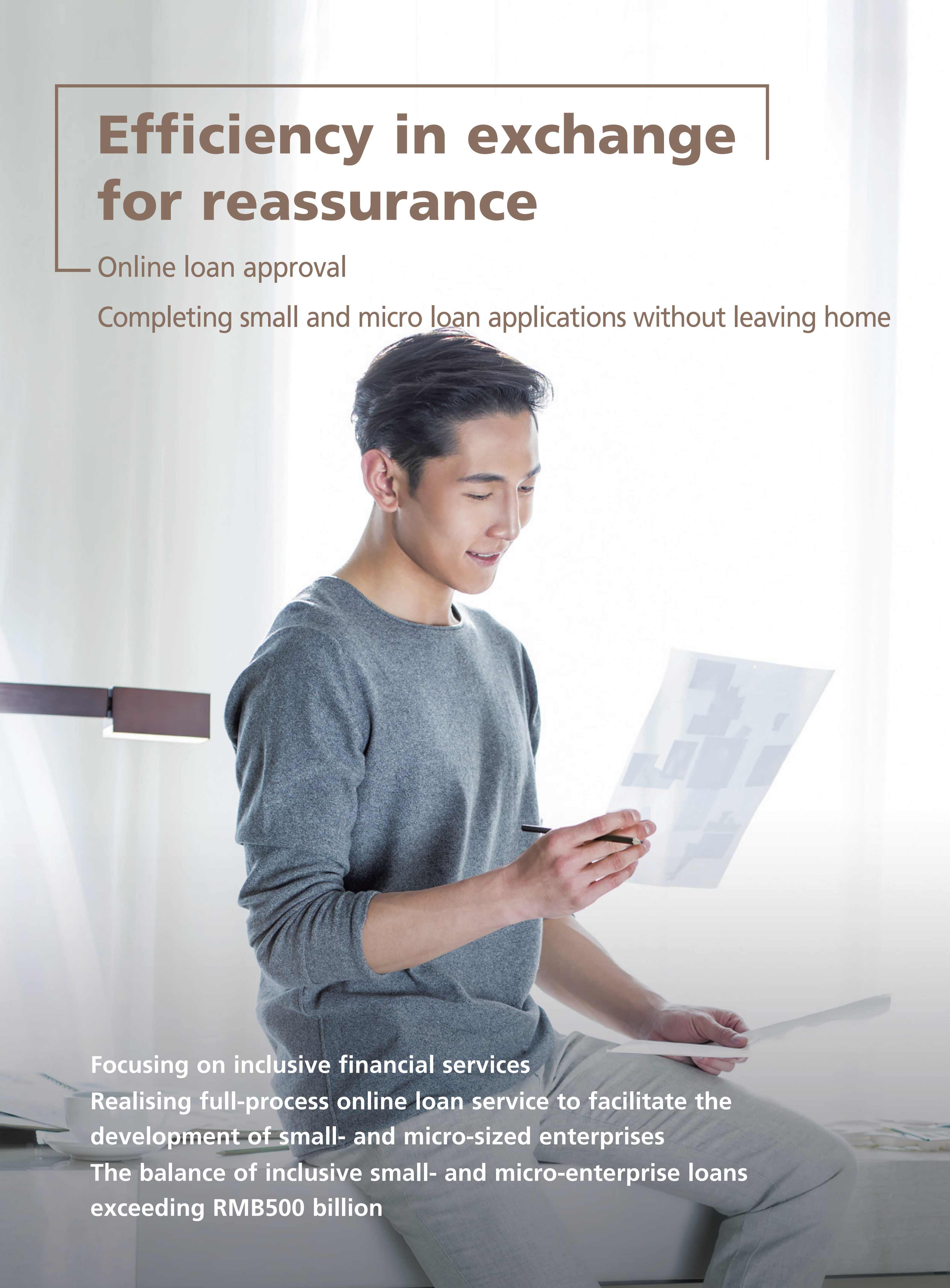
7.17 Compliance with the Corporate Governance Code

During the reporting period, the Company has applied the principles of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, and has complied with all the code provisions and recommended practices (if applicable).

Efficiency in exchange for reassurance

Online loan approval

Completing small and micro loan applications without leaving home



Focusing on inclusive financial services
Realising full-process online loan service to facilitate the development of small- and micro-sized enterprises
The balance of inclusive small- and micro-enterprise loans exceeding RMB500 billion

Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has proactively and effectively carried out supervision on the financial activities, internal control, risk management, lawful operation as well as the duty performance of the Board of Directors and the senior management of the Company pursuant to the "Company Law of the People's Republic of China", the Articles of Association of the Company and the supervisory duties delegated by relevant supervisory authorities.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful Operation

During the reporting period, the business activities of the Company complied with the "Company Law of the People's Republic of China", the "Commercial Banking Law of the People's Republic of China" and the Articles of Association of the Company, the internal control system was improved, and the decision making procedures were lawful and valid. None of the Directors and senior management of the Company were found to have violated the relevant laws, regulations or the Articles of Association of the Company or had done anything detrimental to the interests of the Company and shareholders.

Authenticity of Financial Statements

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu have audited the financial statements for 2020 in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively and have each produced a standard unqualified audit report, stating that the financial statements have given a true, objective and accurate view of the financial position and operating results of the Company.

Use of Proceeds

During the reporting period, the use of proceeds of the Company was consistent with such usages as committed in the Prospectus of the Company.

Purchase and Disposal of Assets

During the reporting period, the Company is unaware of any insider trading in its acquisition and sale of assets which would damage shareholders' interests or cause loss in the assets of the Company.

Related Party Transactions

During the reporting period, the Board of Supervisors was not aware of any related party transactions which were not conducted on an arm's length basis or were detrimental to the interests of the Company and its shareholders.

Implementation of Resolutions Passed at Shareholders' General Meeting(s)

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the shareholders' general meeting in 2020, and concluded that the Board of Directors had duly implemented relevant resolutions passed at the shareholders' general meeting(s).

Internal Control

The Board of Supervisors had reviewed the "Report on Assessment of Internal Control of China Merchants Bank Co., Ltd. for 2020", and concurred with the Board of Directors' representations regarding the completeness, reasonableness and effectiveness of the internal control system of the Company as well as its implementation.

Financial Statements

Independent Auditor's Report

DTTHK(A)(21)I00002

Deloitte. 德勤

To the shareholders of China Merchants Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 163 to 312, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional 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.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowances of loans and advances to customers at amortised cost and debt investments at amortised cost	
We identified expected credit loss (ECL) allowance of loans and advances to customers at amortised cost and debt investments at amortised cost as a key audit matter due to the materiality of the balances of these financial assets and judgement involved in deriving the ECL estimates. An expected credit loss model was applied by the Group to estimate ECLs, which involves significant management judgement and estimates in model design, its application and inputs. As at 31 December 2020, as set out in Note 22(a), the Group reported loans and advances to customers at amortised cost of RMB4,656,668 million and RMB234,522 million of expected credit loss allowances. Whilst as set out in Note 23(b), the Group reported debt investments at amortised cost of RMB1,075,486 million and expected credit loss allowances of RMB26,206 million. Key judgements and estimates in respect of the measurement of ECLs include: the identification of a significant increase in credit risk (SICR); the identification of credit impairment events; the determination of inputs used in the ECL model, as well as the determination of the forward-looking information to incorporate. Principal accounting policies, accounting estimates and judgement applied in determining the expected credit loss allowances of loans and advances to customers at amortised cost and debt investments at amortised cost are set out in Notes 4(5) and 5(4) to the consolidated financial statements.	Our audit procedures in relation to the expected credit loss allowances of loans and advances to customers at amortised cost and debt investments at amortised cost included the following: We understood management's process and tested the design and operating effectiveness of key controls across the processes relevant to the ECL estimation of the Group. These controls included the development, validation and review of the ECL model; the controls over the model data input, including manual controls and automated controls; the automated controls over the ECL model calculation process; the controls over the identification of SICR indicators and credit impairment events. We assessed whether the ECL model applied by the Group has covered all the exposures that should be taken into consideration. In respect of different portfolios of loans and advances to customers at amortised cost and debt investments at amortised cost, we involved our internal modelling specialist to assist us in assessing the appropriateness of the Group's methodology of ECL modelling. We reviewed relevant documents and evaluated the appropriateness and application of the ECL model. With the support of our internal modelling specialist, we assessed the reasonableness of the key definitions, application of parameters and assumptions in the ECL model. This included assessing stage determination, probability of default, loss given default, exposure at default, forward-looking information and COVID-19 impact. We selected samples to check whether the calculation of the samples in the ECL model is consistent with the methodology. We selected samples to conduct credit reviews in order to assess the appropriateness of the significant judgements made by the management regarding the occurrence of SICR and credit impairment events and appropriate and timely identification of such events. In addition, we selected samples and tested their data input in the ECL model to evaluate the completeness and accuracy of the data input. For the loans and advances at amortised cost and debt investments at amortised cost at stage 3, we selected samples to test the reasonableness of future cash flows from the borrowers estimated by the Group, including the expected recoverable amount of collateral, to assess whether there were material misstatements in the credit loss allowances.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Consolidation of Structured Entities	
We identified consolidation of structured entities as an area of key audit matter since significant judgment is applied by management to determine whether or not the Group has control of certain structured entities. The structured entities include the wealth management products, asset management schemes, mutual funds, etc. as disclosed in Note 64 to the consolidated financial statements. As described in Note 4(1), the consolidation of structured entities is determined based on control. Control is achieved when the investor has power over the investee, the investor is exposed, or has rights, to variable returns from its involvement with the investee; and the investor has the ability to use its power to affect its returns. When performing the assessment of whether the Group has control of structured entities, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services and the Group's exposure to variability of returns from interests that it holds in the structured entities.	Our audit procedures in relation to consolidation of structured entities included the following: We understood and tested the design and operating effectiveness of key controls over the management process in determining the consolidation scope for interests in structured entities as well as understood the purpose for setting up the structured entities. We also evaluated management judgement in whether the Group has control in the structured entities and the conclusion about whether or not the consolidation criteria is met, with assessment, on a sample basis, of the terms of the relevant contracts, including the rights to variable returns of the structured entities and the ability of the Group to use its power to affect its return.

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Other Information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 of the Bank determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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.

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

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 of the Bank.
- Conclude on the appropriateness of the directors of the Bank's 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 the independent auditor's report is Eric Tong.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

19 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020
(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2020	2019
Interest income	6	**307,425**	292,994
Interest expense	7	**(122,394)**	(119,904)
Net interest income		**185,031**	173,090
Fee and commission income	8	**86,684**	79,047
Fee and commission expense		**(7,198)**	(7,554)
Net fee and commission income		**79,486**	71,493
Other net income	9	**22,881**	23,482
– Disposal of financial instruments at amortised cost		**(273)**	146
Operating income		**287,398**	268,065
Operating expenses	10	**(102,814)**	(91,497)
Operating profit before impairment losses		**184,584**	176,568
Expected credit losses	14	**(64,871)**	(61,066)
Impairment losses on other assets		**(154)**	(93)
Share of profit of joint ventures	25	**2,392**	1,686
Share of profit of associates	26	**489**	37
Profit before taxation		**122,440**	117,132
Income tax	15	**(24,481)**	(23,709)
Profit for the year		**97,959**	93,423
Attributable to:			
Equity holders of the Bank		**97,342**	92,867
Non-controlling interests		**617**	556
Earnings per share			
Basic and diluted (RMB)	17	**3.79**	3.62

The notes form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2020	2019
Profit for the year		97,959	93,423
Other comprehensive income for the year after tax and reclassification adjustments			
Items that may be reclassified subsequently to profit or loss			
Equity-accounted investees share of other comprehensive income		463	368
Fair value (loss)/gain on debt instruments measured at fair value through other comprehensive income		(2,729)	1,640
Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		1,054	626
Cash flow hedge: net movement in hedging reserve		(27)	(102)
Exchange difference on translation of financial statements of foreign operations		(2,483)	497
Items that will not be reclassified to profit or loss			
Fair value gain on equity instruments measured at fair value through other comprehensive income		481	729
Remeasurement of defined benefit liability		43	1
Other comprehensive income for the year, net of tax	16	(3,198)	3,759
Attributable to:			
Equity holders of the Bank		(2,967)	3,693
Non-controlling interests		(231)	66
Total comprehensive income for the year		94,761	97,182
Attributable to:			
Equity holders of the Bank		94,375	96,560
Non-controlling interests		386	622

The notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2020

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2020	2019
Assets			
Cash		**13,088**	15,306
Precious metals		**7,970**	4,094
Balances with central banks	18	**525,358**	552,590
Balances with banks and other financial institutions	19	**103,335**	106,113
Placements with banks and other financial institutions	20	**226,919**	307,433
Amounts held under resale agreements	21	**286,262**	108,961
Loans and advances to customers	22	**4,804,361**	4,277,300
Investments at fair value through profit or loss	23(a)	**495,723**	398,276
Derivative financial assets	60(f)	**47,272**	24,219
Debt investments at amortised cost	23(b)	**1,049,280**	921,228
Debt investments at fair value through other comprehensive income	23(c)	**516,553**	478,856
Equity investments designated at fair value through other comprehensive income	23(d)	**7,139**	6,077
Interest in joint ventures	25	**12,403**	10,324
Interest in associates	26	**2,519**	460
Investment properties	27	**1,623**	1,925
Property and equipment	28	**69,470**	66,408
Right-of-use assets	29(a)	**19,104**	20,000
Intangible assets	30	**4,763**	4,575
Goodwill	31	**9,954**	9,954
Deferred tax assets	32	**72,893**	65,151
Other assets	33	**85,459**	37,990
Total assets		**8,361,448**	7,417,240

The notes form part of these consolidated financial statements.

	Notes	2020	2019
Liabilities			
Borrowing from central banks		**331,622**	359,175
Deposits from banks and other financial institutions	34	**723,402**	555,581
Placements from banks and other financial institutions	35	**143,517**	165,921
Financial liabilities at fair value through profit or loss	36	**60,351**	43,434
Derivative financial liabilities	60(f)	**50,061**	23,200
Amounts sold under repurchase agreements	37	**142,927**	63,233
Deposits from customers	38	**5,664,135**	4,874,981
Salaries and welfare payable	39(a)	**15,462**	11,638
Tax payable	40	**18,648**	19,069
Contract liabilities	41	**6,829**	6,488
Lease liabilities	29(b)	**14,242**	14,379
Provisions	42	**8,229**	6,109
Debt securities issued	43	**346,141**	578,191
Deferred tax liabilities	32	**1,073**	956
Other liabilities	44	**104,455**	77,178
Total liabilities		**7,631,094**	6,799,533
Equity			
Share capital	45	**25,220**	25,220
Other equity instruments	46	**84,054**	34,065
– Preference shares	46(a)	**34,065**	34,065
– Perpetual debt capital	46(b)	**49,989**	–
Capital reserve	47	**67,523**	67,523
Investment revaluation reserve	48	**8,207**	8,919
Hedging reserve	49	**(66)**	(39)
Surplus reserve	50	**71,158**	62,291
Regulatory general reserve	51	**98,082**	90,151
Retained profits		**338,664**	291,346
Proposed profit appropriations	52(b)	**31,601**	30,264
Exchange reserve	53	**(693)**	1,561
Total equity attributable to shareholders of the Bank		**723,750**	611,301
Non-controlling interests		**6,604**	6,406
– Non-controlling interest		**2,851**	2,427
– Perpetual debt capital	62(a)	**3,753**	3,979
Total equity		**730,354**	617,707
Total equity and liabilities		**8,361,448**	7,417,240

The notes form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 19 March 2021.

Miao Jianmin
Director

Tian Huiyu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

(Expressed in millions of Renminbi unless otherwise stated)

		2020														
		Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
	Notes	Share capital	Preference shares	Perpetual debt capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Perpetual debt capital	Non-controlling interests	Total
At 1 January 2020		25,220	34,065	–	67,523	8,919	(39)	62,291	90,151	291,346	30,264	1,561	611,301	3,979	2,427	617,707
Changes in equity for the year		–	–	49,989	–	(712)	(27)	8,867	7,931	47,318	1,337	(2,254)	112,449	(226)	424	112,647
(a) Net profit for the year		–	–	–	–	–	–	–	–	97,342	–	–	97,342	234	383	97,959
(b) Other comprehensive income for the year	16	–	–	–	–	(686)	(27)	–	–	–	–	(2,254)	(2,967)	(226)	(5)	(3,198)
Total comprehensive income for the year		–	–	–	–	(686)	(27)	–	–	97,342	–	(2,254)	94,375	8	378	94,761
(c) Capital contribution from equity holders		–	–	49,989	–	–	–	–	–	–	–	–	49,989	–	218	50,207
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	218	218
(ii) Issue of perpetual debt capital	46(b)	–	–	49,989	–	–	–	–	–	–	–	–	49,989	–	–	49,989
(d) Profit appropriations		–	–	–	–	–	–	8,867	7,931	(50,050)	1,337	–	(31,915)	(234)	(172)	(32,321)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	–	8,867	–	(8,867)	–	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	51	–	–	–	–	–	–	–	7,931	(7,931)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2019		–	–	–	–	–	–	–	–	–	(30,264)	–	(30,264)	–	(172)	(30,436)
(iv) Distribution to perpetual capital instruments	62	–	–	–	–	–	–	–	–	–	–	–	–	(234)	–	(234)
(v) Proposed dividends for the year 2020		–	–	–	–	–	–	–	–	(31,601)	31,601	–	–	–	–	–
(vi) Dividends paid for preference shares		–	–	–	–	–	–	–	–	(1,651)	–	–	(1,651)	–	–	(1,651)
(e) Transfers within equity upon disposal of equity Instruments designated at FVTOCI		–	–	–	–	(26)	–	–	–	26	–	–	–	–	–	–
At 31 December 2020		25,220	34,065	49,989	67,523	8,207	(66)	71,158	98,082	338,664	31,601	(693)	723,750	3,753	2,851	730,354

The notes form part of these consolidated financial statements.

		2019													
		Total equity attributable to equity holders of the Bank											Non-controlling interests		
			Other equity instruments												
	Notes	Share capital	Preference shares	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Perpetual debt capital	Non-controlling interests	Total
At 1 January 2019		25,220	34,065	67,523	5,532	63	53,682	78,542	250,654	23,707	1,130	540,118	1,158	2,329	543,605
Changes in equity for the year		–	–	–	3,387	(102)	8,609	11,609	40,692	6,557	431	71,183	2,821	98	74,102
(a) Net profit for the year		–	–	–	–	–	–	–	92,867	–	–	92,867	153	403	93,423
(b) Other comprehensive income for the year	16	–	–	–	3,364	(102)	–	–	–	–	431	3,693	60	6	3,759
Total comprehensive income for the year		–	–	–	3,364	(102)	–	–	92,867	–	431	96,560	213	409	97,182
(c) Capital contribution from equity holders		–	–	–	–	–	–	–	–	–	–	–	2,761	(168)	2,593
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	2	2
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(170)	(170)
(iii) Issue of perpetual debt capital		–	–	–	–	–	–	–	–	–	–	–	2,761	–	2,761
(d) Profit appropriations		–	–	–	–	–	8,609	11,609	(52,152)	6,557	–	(25,377)	(153)	(143)	(25,673)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	8,609	–	(8,609)	–	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	51	–	–	–	–	–	–	11,609	(11,609)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2018		–	–	–	–	–	–	–	–	(23,707)	–	(23,707)	–	(143)	(23,850)
(iv) Distribution to perpetual capital instruments		–	–	–	–	–	–	–	–	–	–	–	(153)	–	(153)
(v) Proposed dividends for the year 2019		–	–	–	–	–	–	–	(30,264)	30,264	–	–	–	–	–
(vi) Dividends paid for preference shares		–	–	–	–	–	–	–	(1,670)	–	–	(1,670)	–	–	(1,670)
(e) Transfers within equity upon disposal of equity Instruments designated at FVTOCI		–	–	–	23	–	–	–	(23)	–	–	–	–	–	–
At 31 December 2019		25,220	34,065	67,523	8,919	(39)	62,291	90,151	291,346	30,264	1,561	611,301	3,979	2,427	617,707

The notes form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in millions of Renminbi unless otherwise stated)

	2020	2019
Cash flows from operating activities		
Profit before tax	**122,440**	117,132
Adjustments for:		
– Impairment losses on loans and advances	**46,882**	54,214
– Impairment losses on investments and other assets	**18,143**	6,945
– Unwind of discount	**(186)**	(286)
– Depreciation of properties and equipment and investment properties	**7,715**	6,379
– Depreciation of right-of-use assets	**4,416**	4,364
– Amortisation of other assets	**1,364**	1,063
– Net gain on debt securities and equity investments	**(7,208)**	(867)
– Interest income on investments	**(51,843)**	(48,902)
– Interest expense on issued debt securities	**14,652**	17,631
– Share of profits of associates	**(489)**	(37)
– Share of profits of joint ventures	**(2,392)**	(1,686)
– Net gains on disposal of properties and equipment and other assets	**(44)**	(382)
– Interest expense on lease liabilities	**596**	557
Changes in:		
Balances with central banks	**(23,480)**	(36,397)
Loans and advances to customers	**(649,434)**	(509,737)
Other assets	**(45,118)**	(5,200)
Deposits from customers	**783,914**	443,748
Deposits and placements from banks and other financial institutions	**223,568**	32,183
Balances and placements with banks and other financial institutions with original maturity over 3 months	**(8,766)**	5,917
Borrowing from central banks	**(26,909)**	(43,625)
Other liabilities	**45,151**	(4,593)
Cash generated from operating activities before tax	**452,972**	38,421
Income tax paid	**(31,644)**	(33,989)
Net cash generated from operating activities	**421,328**	4,432
Investing activities		
Payment for the purchase of investments	**(1,385,212)**	(903,854)
Proceeds from the disposal of investments	**1,104,070**	802,970
Investments and net gains received from investments	**58,038**	49,221
Payment for the acquisition of subsidiaries, associates, joint venture	**(1,460)**	(46)
Payment for the purchase of properties and equipment and other assets	**(19,125)**	(23,964)
Proceeds from the disposal of properties and equipment and other assets	**2,354**	5,063
Proceeds from the disposal of subsidiaries, associates, joint venture	**582**	39
Net cash used in investing activities	**(240,753)**	(70,571)

The notes form part of these consolidated financial statements.

	Note	2020	2019
Financing activities			
Proceeds from the issue of debt securities		**33,606**	70,607
Proceeds from the issue of negotiable interbank certificates of deposits		**213,011**	455,128
Proceeds from the issue of certificates of deposits		**22,592**	27,631
Proceeds from the issue of perpetual debt capital		**49,989**	2,761
Proceeds from non-controlling shareholders		**218**	–
Proceeds from other financing activities		**14,417**	6,509
Repayment of debt securities		**(45,486)**	(22,363)
Repayment of negotiable interbank certificates of deposits		**(413,820)**	(351,235)
Repayment of certificates of deposit		**(28,992)**	(30,921)
Repayment of lease liabilities		**(4,644)**	(4,302)
Payment for acquiring additional non-controlling equity		**–**	(170)
Dividends paid		**(32,321)**	(25,673)
Interest paid on financing activities		**(19,490)**	(17,337)
Payment for other financing activities		**(867)**	(185)
Net cash (used in) generated from financing activities		**(211,787)**	110,450
Net (decrease) increase in cash and cash equivalents		**(31,212)**	44,311
Cash and cash equivalents as at 1 January		**589,675**	543,683
Effect of foreign exchange rate changes		**(5,673)**	1,681
Cash and cash equivalents as at 31 December	55(a)	**552,790**	589,675
Cash flows from operating activities include:			
Interest received		**255,854**	243,249
Interest paid		**100,925**	101,258

The notes form part of these consolidated financial statements.

Notes to the Financial Consolidated Statements

For the year ended December 31, 2020

(Expressed in millions of Renminbi unless otherwise stated)

1. Organisation and principal activities

(1) Organisation

China Merchants Bank Co., Ltd. (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2020, apart from the Head Office, the Bank had 51 branches in the Mainland China, Hong Kong, New York, Singapore, Luxembourg, London and Sydney. In addition, the Bank has three representative offices in Beijing, New York and Taipei.

(2) Principal activities

The principal activities of the Bank and its subsidiaries (the "Group") are providing corporate and personal banking services, conducting treasury business, providing asset management and other financial services.

2. Basis of preparation of consolidated financial statements

(1) Statement of compliance and basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKEx.

(2) Basis of measurement

The Bank's functional currency is Renminbi ("RMB"), unless otherwise stated, the consolidated financial statements are presented in RMB, rounded to the nearest million.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

2. Basis of preparation of consolidated financial statements *(continued)*

(2) Basis of measurement *(continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the future period are discussed in Note 5.

3. Application of new and amendments to IFRSs

New and revised IFRSs effective in the current period applied by the Group

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

3. Application of new and amendments to IFRSs *(continued)*

Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendments to IFRS 16	Covid-19-Related Rent Concessions	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase2	1 January 2021
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IFRS10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	the date to be determined

Except for the new and amendments to IFRSs mentioned below, the Directors of the Group anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Application of new and amendments to IFRSs *(continued)*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16;

- Hedge accounting requirements. Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has USD12,933 million (RMB84,579 million) financial instruments linked to London Interbank Offered Rate (LIBOR) that will be subject to IBOR reform, which are mainly secured bank loans, debt securities and financial derivatives. The Group expects that the interest rate benchmark for these financial instruments will be changed to Sterling Overnight Index Average (SONIA) or Secured Overnight Financing Rate (SOFR) in 2021 and that no significant modification gain or loss will arise as a result of applying the amendments to these changes. The Group will apply the amendments from 1 January 2021. The application of the amendments has no impact on prior periods.

4. Principal accounting policies

(1) Business combination

Financial statements include financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 4(2)) or, an associate (see Note 4(3)).

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

4. Principal accounting policies *(continued)*

(1) Business combination *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combination

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 as at acquisition date.

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.

(2) Joint ventures

A joint venture is an arrangement in which the Group has joint control, where by the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When judge whether there is a joint control, the Group usually considers the following cases:

– whether any party within the joint arrangement cannot control the relevant activities of the joint ventures;

– whether the decisions about the joint ventures' relevant activities require the unanimous consent of the parties sharing control.

The consolidated statement of profit or loss includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

Interests in the joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the joint ventures, until the date on which significant influence or joint control ceases.

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the joint ventures' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes post-tax results of the joint ventures for the year, including any impairment loss on goodwill relating to the investment in the joint ventures recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures. For these purposes, the Group's interest in the joint ventures is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the joint ventures.

4. Principal accounting policies *(continued)*

(2) Joint ventures *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture and no significant impact occurs, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

(3) Associates

Associate is an entity in which the Group has significant influence, but not control, or joint control, including participation in the financial and operating policy decisions.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

When judging whether there is a significant influence, the Group usually considers the following cases:

– representation on the Board of Directors or equivalent governing body of the investee;

– participation in policy-making processes;

– material transactions between the entity and its investee.

Investments in associates are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any).

Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes the Group's post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For these purposes, the Group's interest in the associates is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

4. Principal accounting policies *(continued)*

(4) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest based on the fair value of net assets acquired in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU") or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 4(11)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(5) Financial instruments

Initial recognition

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

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.

At initial recognition, financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial 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 financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and measurement of financial assets

The Group classifies its financial assets into the following measurement categories at initial recognition: financial assets at amortised cost; financial assets fair value through other comprehensive income; and financial assets at fair value through profit or loss.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment, which is not held for trading, in other comprehensive income ("OCI").

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Debt instruments and loans and advances to customers classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments and loans and advances to customers classified as at FVTOCI as a result of interest income calculated using the effective interest method, foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of debt instruments and loan and advances to customers are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment losses are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of debt instruments and loan and advances to customers. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if debt instruments and loan and advances to customers had been measured at amortised cost. When debt instruments and loan and advances to customers are derecognised, the cumulative gains or losses previously recognised in investment revaluation reserve are reclassified to profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments which are not held for trading as at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other net income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other net income" line item.

Impairment under ECL model

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under IFRS 9 (including financial assets at amortised cost, debt instruments assets at fair value through other comprehensive income), leases receivable, loan commitments and financial guarantee contracts etc. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group assesses the ECL of financial assets with forward-looking information. 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. In contrast, lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. Assessment are done based on the factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For the above financial instruments that apply the ECL model, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by the Group to determine whether to recognize lifetime ECL. When the credit risk of these financial instruments does not increase significantly after the initial recognition, the Group makes provision for credit losses according 12-month ECL; in the event of a significant increase in credit risk, the group makes provision for the credit losses in accordance with the ECL for the entire duration.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The assessment of whether the credit risk has increased significantly are detailed in Note 60(a).

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Impairment under ECL model *(continued)*

Credit-impaired financial assets

The Group defines whether there is credit impairment based on the internal evaluation results of the credit risk management system for relevant financial assets. The Group considers that financial assets have been credit impaired when its 5-tier loan classification is substandard, doubtful or loss or is more than 90 days overdue.

Measurement and recognition of ECL

ECL is measured based on the probability of default, loss given default and the exposure at default. Measurement of ECL are detailed in Note 60(a).

Generally, ECL is estimated as 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, discounted at the effective interest rate determined at initial recognition.

For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected credit losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, ECL is the present value of the difference between the contractual cash flows that are due to the Group:

- if the holder of the loan commitments draws down the loan, and
- the cash flows that the Group expects to receive if the loan is drawn down.

For investments in debt instruments and loans and advances to customers that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these financial assets. The loss allowance for loan commitments and financial guarantee contracts is recognised in profit or loss and accumulated in provision. The loss allowance for other financial assets which are subject to impairment under IFRS 9 is recognised in profit or loss through a loss allowance account.

Classification and measurement of financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial liabilities *(continued)*

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability 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 grouping is provided internally on that basis.
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including borrowing from central banks, deposits from banks and other financial institutions, placements from banks and other financial institutions, amounts sold under repurchase agreements, deposits from customers are subsequently measured at amortised cost, using the effective interest method.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedge. The Group documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge, at the inception of a hedging relationship, The Group also requires documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Cash flow hedge

The effective portions of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in hedging reserve. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from hedging reserve to the consolidated statement of profit or loss in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in hedging reserve until the forecast transaction is ultimately recognised in the consolidated statements of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss is immediately reclassified to the consolidated statement of profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Hedge accounting *(continued)*

Hedge effectiveness testing

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Balances and placements with banks and other financial institutions

Banks represent other banks approved by the People's Bank of China ("PBOC") and other authorities. Other financial institutions represent finance companies, insurance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking and Insurance Regulatory Commission (the "CBIRC") and securities firms and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Balances and placements with banks and other financial institutions are measured at amortised cost.

Resale and repurchase agreements

Amounts for purchase of financial assets under resale agreements are accounted for under "amounts held under resale agreements". Amounts from sale of financial assets under repurchase agreements are accounted for under "amounts sold under repurchase agreements".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense (as appropriate).

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Investments

Equity investments are accounted for as financial assets at fair value through profit or loss or equity investments designated at fair value through other comprehensive income. Debt investments are classified as financial assets at fair value through profit or loss, debt investments at amortised cost, debt investments at fair value through other comprehensive income in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Loans and advances to customers

Loans and advances directly granted by the Group to customers and finance leases receivables are accounted for as loans and advances to customers.

Loans and advances to customers are classified as loans and advances customers at fair value through profit or loss (loans and advances customers at FVTPL), loans and advances customers at amortised cost, loans and advances customers at fair value through other comprehensive income (loans and advances customers at FVTOCI) in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Derivative financial instruments

The Group's derivative financial instruments mainly include forward, foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. The Group enters into derivative contracts with other banks to hedge against risks arising from derivative transactions undertaken for customers.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of profit or loss other than cash flow hedge, for cash flow hedge, the gains and losses arising from the effective hedging part recognised in other comprehensive income.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Equity instruments

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Group for repurchasing self-issued equity instruments are deducted from shareholders' equity.

Perpetual debt capitals: At initial recognition, the Group classifies the perpetual debt capitals issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

***Equity instruments** (continued)*

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.

Perpetual debt capitals issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of interests during the instruments' duration is treated as profit appropriation. When the perpetual debt capitals are redeemed, the redemption price is charged to equity.

Preference shares: At initial recognition, the Group classifies the preference shares issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

Derecognition of financial instruments

(a) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset; or

– has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Derecognition of financial instruments *(continued)*

(b) Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests).

When applying the policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on the transferred financial assets and the degree of control exercised by the Group over the transferred financial assets:

– when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;

– when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

– when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration collected from third parties are recorded as a financial liability.

When the securitisation results in derecognisation or partial derecognisation of financial assets, the Group allocates the carrying amount of the transferred financial assets between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation, which is the difference between the consideration received and the allocated carrying amount of the financial assets derecognised, are recorded in "other net income". The retained interests continue to be recognised on the same basis before the securitisation.

(c) Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(d) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4. Principal accounting policies *(continued)*

(6) Property, equipment, investment property and depreciation

Property, equipment and investment property, are stated at cost or deemed cost less accumulated depreciations and impairment losses. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of property, equipment and investment property over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Leasehold improvements (leasing property)	3 years
Leasehold improvements (self-owned property)	the estimated useful lives
Aircrafts, vessels and professional equipment	no more than 25 years
Motor vehicles and others	3 – 5 years

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property or other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

Subsequent expenditure relating to a property, equipment and investment property is capitalised only when it is probable that future economic benefits associated with the property and equipment will flow to the Group. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

Profits or losses on disposal of property, equipment and investment property are determined as the difference between the net disposal proceeds and the carrying amount of the property, equipment, investment property and are accounted for in the consolidated statement of profit or loss as they arise.

(7) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrowers, repossessed assets except the equity instrument are reported in “other assets”.

Repossessed assets of equity instruments are detailed in Note 4(5).

4. Principal accounting policies *(continued)*

(8) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see Note 4(11)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at the end of reporting period.

The amortization period of intangible assets is as follow:

Land use right	Software and Others	Core deposit
30~50 years	2~20 years	28 years

Both the periods and method of amortisation are reviewed annually.

(9) Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

(a) Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(b) Short-term leases and leases of low-value assets

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (lease term of 12 months or less and do not contain a purchase option) and leases of low value assets (the value of assets is below equivalent to RMB35,000).

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(c) Right-of-use assets

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The right-of-use asset is initially measured at cost. This cost includes:

- the amount of the initial measurement lease liability; and
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the lessee; and
- whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessee *(continued)*

(c) Right-of-use assets (continued)

After the commencement date, the right-of-use assets are measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The Group recognises the depreciation of right-of-use assets as an operating expense on a straight-line basis and calculate the depreciation charge into the operating expenses of the consolidated statement of profit or loss. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying assets.

Accounting policies for any identified right-of-use asset impairment loss are disclosed in Note 4(11).

(d) Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

(e) Lease liabilities

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date using its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease; and
- The amount expected to be payable by the lessee under remaining value guarantees.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made the Group remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed remaining value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate. But if the change in lease payments results from a change in floating interest rates, the lessee shall use a revised discount rate that reflects changes in the interest rate.

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. When the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Accounting policies for Impairment losses are disclosed in Note 4(5).

When the Group is a lessor of an operating lease, income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term. Initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Contingent lease income is charged to profit or loss in the accounting period in which they are incurred.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Sale and leaseback transactions

The Group acts as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises loan and advance to customers equal to the transfer proceeds within the scope IFRS 9.

(10) Insurance contracts

Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policy holders. 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 fulfil 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 should be recorded if any deficiency exists.

4. Principal accounting policies *(continued)*

(11) Impairment on tangible, intangible assets other than impairment under ECL model

The carrying amount of tangible and intangible assets other than impairment under ECL model is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount, including property and equipment, right-of-use assets, intangible assets, investment properties, interest in joint ventures, interest in associates, goodwill and other non-current assets. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount of an asset is the greater of its fair value less disposal expense and present value of future expected cash flow. In assessing value in use, the estimated future cash flows are discounted to their present values.

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value net disposal expense and the present value of future cash flow. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(12) 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 statement of profit or loss in the period in which they arise.

4. Principal accounting policies *(continued)*

(13) Financial guarantee issued, provisions and contingent liabilities

Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The provision of financial guarantees issued is confirmed in the statement of financial position in accordance with Note 4(5).

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is highly probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(14) Income recognition

Revenue is the inflow of economic benefits that the Group has formed in its daily activities that will result in an increase in shareholders' equity and have nothing to do with the capital invested by shareholders.

Net Interest income

Interest income and expense for all financial instruments except for those classified as at FVTPL are recognised in "Interest income" and "Interest expense" in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, which is recognized in "Other net income".

Dividend income

Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

Rental income

Income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term.

Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

If the revenue is recognised over time, the Group recognizes revenue in accordance with the progress towards complete satisfaction of a performance obligation. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income *(continued)*

If a performance obligation is not satisfied over time, it is satisfied at a point in time. To determine the point in time at which a customer obtains control of a promised service, the following indicators of the transfer of control should also be considered; these include, but are not limited to:

- The Group has a present right to payment for the services;
- The Group has transferred physical possession of the service;
- The customer has the significant risks and rewards of ownership of the service;
- The customer has accepted the services.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(15) Taxation

Current income tax and movements in deferred tax balances are recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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 assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates of expected returns of the assets or the repayment of the liabilities. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

The Group shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied: the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

4. Principal accounting policies *(continued)*

(15) Taxation *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(16) Foreign currencies translations

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each 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 in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

Exchange differences on transactions entered into in order to the effective portion of the hedge certain foreign currency risks.

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange reserve (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in exchange reserve in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

4. Principal accounting policies *(continued)*

(17) Employee benefits

Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of profit or loss as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds form the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in the consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Share-based payment

The Group offers H share appreciation rights to its employee, namely H Share Appreciation Rights Scheme for the Senior Management ("the Scheme"), which is settled by cash. Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share. The Group recognises the services for the period as related costs or expenses, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting at the end of each reporting period within the vesting period. Until the liability is settled, the Group remeasures the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of the H share appreciation rights is using Black-Scholes model, taking into account the terms and condition upon which the H share appreciation rights were granted.

4. Principal accounting policies *(continued)*

(18) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly, indirectly or jointly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to control, common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(19) Segmental reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they meet most of these criteria.

(20) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated statement of financial position as the risks and rewards of the assets reside with the customers. The Group only charges a relevant commission.

(21) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

5. Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on the assets and liabilities at the end of the reporting period. These estimates involve assumptions about cash flows and the discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to the assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(1) Control over structured entity

Where the Group acts as asset manager of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from interests that it holds in the structured entities.

(2) Classification of financial assets

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

(3) De-recognition 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. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full de-recognition.

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 de-recognition 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 de-recognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer 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 effect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

5. Significant accounting estimates and judgements *(continued)*

(4) Impairment under ECL model

- Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 60(a)(ii) for more details.

- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 60(a)(v) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Models and assumptions used: The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 60(a)(iii)for more details on ECL.

- Forward-looking information: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 60(a)(iv) for more details.

- Probability of Default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to Note 60(a) (iii)for more details.

- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 60(a)(iii) for more details.

- Due to greater financial uncertainty triggered by the Covid-19 pandemic, there is higher risk that a prolonged pandemic could led to increased credit default rates. The Group considered the impact of Covid-19 in the ECL model which are disclosed in Note 60(a)(iv).

5. Significant accounting estimates and judgements *(continued)*

(5) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair value for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Whilst the Group considers these valuations are the best estimates, the ongoing Covid-19 pandemic has resulted in greater market volatility and may cause further disruptions to the investees'/issuer's businesses, which have led to higher degree of uncertainties in respect of the valuations in the current year. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. If the fair value is measured using third party information such as brokerage quotes or pricing services, the valuation team will evaluate the evidence obtained from third parties to support the conclusion.

(6) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(7) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the groups to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from groups and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets.

6. Interest income

	2020	2019
Loans and advances to customers	**236,104**	221,979
– Corporate loans	**80,575**	78,914
– Retail loans	**147,704**	134,763
– Discounted bills	**7,825**	8,302
Balances with central banks	**7,475**	7,759
Balances with banks and other financial institutions	**1,695**	1,882
Placements with banks and other financial institutions	**5,906**	8,170
Amounts held under resale agreements	**4,402**	4,302
Investments	**51,843**	48,902
– Debt investments at FVTOCI	**14,023**	13,821
– Debt investments at amortised cost	**37,820**	35,081
Total	**307,425**	292,994

Note: The Group recognized RMB186 million interest income on impaired loans and advances to customers (2019: RMB286 million), nil interest income on impaired debt securities investments (2019: RMB5 million), and RMB9,175 million on loans and advances to customers at fair value through other comprehensive income (2019: RMB9,577 million).

7. Interest expense

	2020	2019
Deposits from customers	**83,252**	73,430
Borrowing from central banks	**8,413**	9,207
Deposits from banks and other financial institutions	**9,961**	10,269
Placements from banks and other financial institutions	**3,750**	6,406
Amounts sold under repurchase agreements	**1,770**	2,404
Debt securities issued	**14,652**	17,631
Lease liabilities	**596**	557
Total	**122,394**	119,904

8. Fee and commission income

	2020	2019
Bank cards fees	**19,551**	19,551
Remittance and settlement fees	**12,651**	11,492
Agency services fees	**18,507**	13,681
Commissions from credit commitment and lending business	**6,191**	6,310
Commissions on trust and fiduciary activities	**26,742**	23,560
Others	**3,042**	4,453
Total	**86,684**	79,047

9. Other net income

	2020	2019
(Loss)/profit from fair value change	**(1,660)**	384
– financial instruments at fair value through profit or loss	**(2,099)**	1,112
– derivatives instruments	**48**	(255)
– precious metals	**391**	(473)
Investment income	**16,281**	14,048
– financial instruments at FVTPL	**13,400**	11,030
– (loss)/gain on disposal of financial assets at amortised cost	**(273)**	146
– gain on disposal of debt instruments at FVTOCI	**2,970**	2,457
– of which: gain on disposal of bills	**1,660**	1,941
– dividend income from equity investments designated at FVTOCI	**175**	170
– others	**9**	245
Foreign exchange gain	**2,202**	3,259
Other income	**5,708**	4,870
– rental income	**5,278**	4,488
– insurance income	**430**	382
Others	**350**	921
Total	**22,881**	23,482

10. Operating expenses

	2020	2019
Staff costs		
– Salaries and bonuses (note (i))	**43,257**	37,267
– Social insurance and corporate supplemental insurance	**6,048**	6,470
– Others	**7,735**	7,702
Subtotal	**57,040**	51,439
Tax and surcharges	**2,478**	2,348
Depreciation of property, equipment and investment properties	**7,715**	6,379
Amortization of intangible assets	**1,188**	1,014
Depreciation of right-of-use assets	**4,416**	4,364
Short-term leases expenses and leases of low-value assets expenses	**292**	302
Charge for insurance claims	**296**	245
Other general and administrative expenses (note (ii))	**29,389**	25,406
Total	**102,814**	91,497

Notes:

(i) Performance bonus is included in the salaries and bonuses, the details of which are disclosed in Note 39(a).

(ii) Auditors' remuneration amounted to RMB28 million for the year ended 31 December 2020 (2019: RMB24 million), is included in other general and administrative expenses.

11. Directors' and supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

	2020				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,158	–	40	4,198
Liu Jianjun	–	3,024	–	43	3,067
Wang Liang	–	3,024	–	40	3,064
Subtotal	–	10,206	–	123	10,329

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Non-executive directors					
Miao Jianmin (ii)	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Su Min	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Luo Sheng	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors' emoluments shown above were for their services as directors of the Bank.

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Independent non-executive directors and supervisors					
Leung Kam Chung, Antony	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Wong See Hong	500	–	–	–	500
Li Menggang	500	–	–	–	500
Liu Qiao	500	–	–	–	500
Tian Hongqi	500	–	–	–	500
Liu Yuan	–	3,402	–	43	3,445
Peng Bihong	–	–	–	–	–
Wen Jianguo	–	–	–	–	–
Wu Heng	–	–	–	–	–
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Xu Zhengjun	400	–	–	–	400
Wang Wanqing	–	2,742	–	43	2,785
Liu Xiaoming	–	1,996	–	43	2,039
Subtotal	4,200	8,140	–	129	12,469

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2020				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Li Jianhong (iii)	–	–	–	–	–
Subtotal	–	–	–	–	–
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	4,200	18,346	–	252	22,798

Notes:

(i) The total remuneration before tax for the full-time directors, supervisors and executive officers of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) In September 2020, according to the relevant resolutions passed at the 2020 first extraordinary general meeting of the Company, Mr. Miao Jianmin was elected as the Chairman and Non-Executive Director of the Company, whose qualifications as the Director and the Chairman were approved by the CBIRC on 24 September 2020.

(iii) In September 2020, Mr. Li Jianhong ceased to be the Chairman and Non-Executive Director of the Company due to change of work arrangement.

(iv) As at 31 December 2020, the Group has offered 10 phases of H share appreciation rights scheme to its senior management ("the Scheme"). Details of the Scheme are set out in Note 39 (a)(iii).

11. Directors' and supervisors' emoluments *(continued)*

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,620	1,766	38	6,424
Liu Jianjun (ii)	–	3,360	1,284	38	4,682
Wang Liang (ii)	–	3,360	1,284	38	4,682
Subtotal	–	11,340	4,334	114	15,788

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

Non-executive directors					
Li Jianhong	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Su Min	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Luo Sheng (iii)	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors' emoluments shown above were for their services as directors of the Bank.

Independent non-executive directors and supervisors					
Leung Kam Chung, Antony	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Wong See Hong	500	–	–	–	500
Li Menggang	500	–	–	–	500
Liu Qiao	500	–	–	–	500
Tian Hongqi (iv)	203	–	–	–	203
Liu Yuan	–	3,780	1,445	38	5,263
Peng Bihong (v)	–	–	–	–	–
Wen Jianguo	–	–	–	–	–
Wu Heng	–	–	–	–	–
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Xu Zhengjun (vi)	200	–	–	–	200
Wang Wanqing	–	2,868	–	38	2,906
Liu Xiaoming (vii)	–	1,395	–	23	1,418
Subtotal	3,703	8,043	1,445	99	13,290

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Li Hao (viii)	–	1,400	427	12	1,839
Sun Yueying (ix)	–	–	–	–	–
Pan Chengwei (iv)	297	–	–	–	297
Fu Junyuan (x)	–	–	–	–	–
Jin Qingjun (xi)	200	–	–	–	200
Huang Dan (xii)	–	718	–	18	736
Subtotal	497	2,118	427	30	3,072
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	4,200	21,501	6,206	243	32,150

Notes:

(i) On 29 September 2020, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2019. Disclosures relating to the directors' and supervisors' emoluments for the year ended 31 December 2019 in Note 11, 12 & 61(h) were adjusted correspondingly.

(ii) In June 2019, Mr. Liu Jianjun and Mr. Wang Liang were newly elected as the executive directors of the Bank, and their qualifications for the post of directors were approved by the China Banking and Insurance Regulatory Commission in August 2019.

(iii) In June 2019, Mr. Luo Sheng was elected as a non-executive director of the Bank, and his qualification for the post of director has been approved by the CBRC in July 2019.

(iv) Mr. Tian Hongqi was newly elected as an independent non-executive director of the Bank. His qualification for the position of independent director has been approved by the China Banking and Insurance Regulatory Commission in August 2019. At the same time, Mr. Pan Chengwei will no longer be an independent non-executive director of the Bank at the end of his term of office.

(v) In June 2019, according to the relevant resolutions of the 2018 general meeting of shareholders of the Bank, Mr. Peng Bihong was newly elected as the shareholder supervisor of the Bank.

(vi) In June 2019, according to the relevant resolutions of the 2018 general meeting of shareholders of the Bank, Mr. Xu Zhengjun was newly elected as the external supervisor of the Bank, with the term of office effective from June 27, 2019.

(vii) In June 2019, according to the election results of the Bank's staff congress, Mr. Liu Xiaoming was newly elected as the Bank's staff supervisor, with the term of office effective from June 27, 2019.

(viii) In April 2019, Mr. Li Hao retired and resigned as the executive director of the Bank.

(ix) In June 2019, Ms. Sun Yueying ceased to be a non-executive director of the Bank after the end of her term of office.

(x) In February 2019, Mr. Fu Junyuan resigned as the shareholder supervisor of the Bank for work reasons.

(xi) In June 2019, due to the expiration of his term of office, Mr. Jin Qingjun will no longer serve as the external supervisor of the Bank after the end of the 2018 general meeting of shareholders.

(xii) In June 2019, due to the expiration of her term of office, Ms. Huang Dan will no longer serve as the employee supervisor of the Bank after the end of the 2018 general meeting of shareholders.

(xiii) As at 31 December 2019, the Group has offered 10 phases of H share appreciation rights scheme to its senior management ("the Scheme"). Details of the Scheme are set out in Note 39 (a)(iii).

11. Directors' and supervisors' emoluments *(continued)*

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

	2020	2019
HKD		
0 – 500,000	**14**	15
500,001 – 1,000,000	**6**	5
1,500,001 – 2,000,000	**–**	1
2,000,001 – 2,500,000	**1**	–
3,000,001 – 3,500,000	**1**	1
3,500,001 – 4,000,000	**2**	–
4,000,001 – 4,500,000	**1**	–
4,500,001 – 5,000,000	**1**	–
5,000,001 – 5,500,000	**–**	2
5,500,001 – 6,000,000	**–**	1
7,000,001 – 7,500,000	**–**	1
Total	**26**	26

During the year ended 31 December 2020, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2020, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

12. Individuals with highest emoluments

Of the five individuals with the highest emoluments for the year ended 31 December 2020, 4 (2019: 4) are directors or supervisors of the Bank whose emoluments are included in Note 11 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2020	2019
Salaries and other emoluments	**22,680**	21,840
Discretionary bonuses (Note 11(i))	**–**	8,347
Contributions to defined contribution retirement schemes	**289**	228
Total	**22,969**	30,415

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

	2020	2019
HKD		
3,500,001 – 4,000,000	**5**	–
4,000,001 – 4,500,000	**1**	–
4,500,001 – 5,000,000	**1**	–
5,000,001 – 5,500,000	**–**	4
5,500,001 – 6,000,000	**–**	1
7,000,001 – 7,500,000	**–**	1

During the year ended 31 December 2020, the five highest paid individuals include seven persons in total, two of them are with the same emoluments and being the third highest paid individuals, three of them are with the same emoluments and being the forth highest paid individuals. During the year ended 31 December 2019, the five highest paid individuals include six persons in total as three of them are with the same emoluments and being the forth highest paid individuals.

13. Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2020	2019
Aggregate amount of relevant loans made by the Group outstanding at year end	54	66
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	59	71

14. Expected credit losses

	2020	2019
Loans and advances to customers (Note 22(c))	46,882	54,214
Amounts due from banks and other financial institutions	307	(208)
Investments		
– Debt investments at amortised cost (Note 23(b)(iii))	13,875	5,803
– Debt investments at FVTOCI (Note 23(c)(ii))	1,492	678
Expected credit losses relating to financial guarantees and loan commitments	2,147	545
Others	168	34
Total	64,871	61,066

15. Income tax

(a) Income tax in the consolidated statement of profit or loss represents:

	2020	2019
Current income tax expense		
– Mainland China	30,574	30,296
– Hong Kong	960	1,243
– Overseas	112	130
Subtotal	31,646	31,669
Deferred taxation	(7,165)	(7,960)
Total	24,481	23,709

(b) A reconciliation of income tax expense in the consolidated statement of profit or loss and that calculated at the applicable statutory tax rate is as follows:

	2020	2019
Profit before taxation	122,440	117,132
Tax at the PRC statutory income tax rate of 25% (2019: 25%)	30,610	29,283
Tax effects of the following items:		
– Effects of non-deductible expenses	914	1,298
– Effects of non-taxable income	(10,568)	(7,738)
– Effects of different applicable rates in other jurisdictions	(458)	(417)
– Transfer out of previously recognised deferred tax assets	4,055	1,320
– Others	(72)	(37)
Income tax expense	24,481	23,709

Notes:

(i) The applicable income tax rate for the Group's operations in Mainland China is 25% during 2020 (2019: 25%).

(ii) Taxation for Hong Kong and overseas operations are charged at the applicable rates of tax prevailing in relevant regions.

16. OTHER COMPREHENSIVE INCOME

(a) Income tax effects relating to each component of other comprehensive income

	2020			2019		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Items that may be reclassified to profit or loss						
– Net fair value (loss) gain on debt instruments measured at fair value through other comprehensive income	(3,717)	988	(2,729)	2,189	(549)	1,640
– Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income	1,391	(337)	1,054	799	(173)	626
– Net movement in cash flow hedge reserve	(33)	6	(27)	(115)	13	(102)
– Equity-accounted investees-share of other comprehensive income	463	–	463	368	–	368
– Exchange difference on translation of financial statements of foreign operations	(2,483)	–	(2,483)	497	–	497
Items that will not be reclassified subsequently to profit or loss						
– Fair value gain on equity instruments measured at fair value through other comprehensive income	625	(144)	481	991	(262)	729
– Remeasurement of defined benefit scheme redesigned through reserve	52	(9)	43	1	–	1
Other comprehensive income	(3,702)	504	(3,198)	4,730	(971)	3,759

(b) Movements relating to components of other comprehensive income are as follows:

	2020	2019
Reserve changes in debt instruments at FVTOCI		
Changes in fair value recognised during the year	(502)	3,483
Reclassification adjustments for amounts transferred to profit or loss upon disposal	(2,227)	(1,843)
Net movement in the debt instrument revaluation reserve during the year recognised in other comprehensive income	(2,729)	1,640
Changes in expected credit losses in financial assets at FVTOCI		
Changes in expected credit losses recognised during the year	1,054	626
Net movement in the debt instrument revaluation reserve during the year recognised in other comprehensive income	1,054	626
Equity instruments measured at fair value through other comprehensive income		
Changes in fair value recognised during the year	481	729
Net movement in the equity investment revaluation reserve during the year recognised in other comprehensive income	481	729
Cash flow hedge		
Effective portion of changes in fair value of hedging instruments	(36)	(101)
Reclassification adjustment for realised gain (loss) to profit or loss	9	(1)
Net movement in the hedging reserve during the year recognised in other comprehensive income	(27)	(102)

17. Earnings per share

The calculation of basic earnings per share for the years 2020 and 2019 are based on the net profit attributable to ordinary shareholders of the Bank and the weighted average number of shares in issue during corresponding years. There is no difference between basic and diluted earnings per share for the years 2020 and 2019.

	2020	2019
Net profit attributable to equity holders of the Bank	**97,342**	92,867
Less: Net profit attributable to preference shareholders of the Bank	**(1,651)**	(1,670)
Net profit attributable to ordinary shareholders of the Bank	**95,691**	91,197
Weighted average number of shares in issue (in million)	**25,220**	25,220
Basic and diluted earnings per share attributable to equity holders of the Bank (in RMB)	**3.79**	3.62

Note:

The Bank issued non-cumulative preference shares in year 2017. For the purpose of calculating basic earnings per share for the years ended 31 December 2020 and 2019, dividends on non-cumulative preference shares declared in corresponding years should be deducted from the amounts attributable to equity holders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not exist as at 31 December 2020 and 2019. Therefore the conversion feature of preference shares has no effect on the calculation of diluted earnings per share.

18. Balances with central banks

	2020	2019
Statutory deposit reserve (note (i))	**495,630**	472,533
Surplus deposit reserve (note (ii))	**24,408**	75,077
Fiscal deposits	**5,080**	4,697
Interest receivable	**240**	283
Total	**525,358**	552,590

Notes:

(i) Statutory deposit reserve funds are deposited with the PBOC as required and are not available for the Group's daily operations. The statutory deposit reserve funds of the Bank's institutions located in Mainland China are calculated at 9% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2020 (31 December 2019: 10.5% and 5% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, retail deposits, corporate deposits, and net credit balances of entrusted business and RMB deposits placed by the financial institutions outside Mainland China.

(ii) Surplus deposit reserve maintained with the PBOC and central banks outside the Mainland China are mainly for clearing and settlement purposes.

19. Balances with banks and other financial institutions

	2020	2019
Principal (a)	**103,448**	106,306
Impairment allowances (a)(b)	**(277)**	(372)
Subtotal	**103,171**	105,934
Interest receivable	**164**	179
Total	**103,335**	106,113

(a) Analysed by nature of counterparties

	2020	2019
Balances in Mainland China		
– Banks	**55,117**	73,825
– Other financial institutions	**1,694**	2,484
Subtotal	**56,811**	76,309
Balances outside Mainland China		
– Banks	**45,942**	29,923
– Other financial institutions	**695**	74
Subtotal	**46,637**	29,997
Total	**103,448**	106,306
Less: Impairment allowances		
– Banks	**(265)**	(361)
– Other financial institutions	**(12)**	(11)
Subtotal	**(277)**	(372)
Total	**103,171**	105,934

(b) Movements of allowances for impairment losses are as follows:

	2020	2019
Balance as at the beginning of the year	**372**	171
(Release)/charge for the year (note 14)	**(93)**	201
Exchange difference	**(2)**	–
Balance as at the end of the year	**277**	372

20. Placements with banks and other financial institutions

	2020	2019
Principal (a)	**226,516**	306,656
Impairment allowances (a)(c)	**(376)**	(338)
Subtotal	**226,140**	306,318
Interest receivable	**779**	1,115
Total	**226,919**	307,433

(a) Analysed by nature of counterparties

	2020	2019
Placements in Mainland China		
– Banks	**27,637**	80,251
– Other financial institutions	**108,914**	155,386
Subtotal	**136,551**	235,637
Placements outside Mainland China		
– Banks	**89,965**	71,019
Subtotal	**89,965**	71,019
Total	**226,516**	306,656
Less: Impairment allowances		
– Banks	**(145)**	(58)
– Other financial institutions	**(231)**	(280)
Subtotal	**(376)**	(338)
Total	**226,140**	306,318

(b) Analysed by residual maturity

	2020	2019
Maturing		
– Within one month (inclusive)	**96,002**	216,735
– Between one month and one year (inclusive)	**125,969**	75,796
– Over one year	**4,169**	13,787
Total	**226,140**	306,318

(c) Movements of allowances for impairment losses are as follows:

	2020	2019
Balance as at the beginning of the year	**338**	405
Charge/(release) for the year (note 14)	**53**	(68)
Exchange difference	**(15)**	1
Balance as at the end of the year	**376**	338

21. Amounts held under resale agreements

	2020	2019
Principal(a)	**286,879**	109,353
Impairment allowances (a)(d)	**(743)**	(396)
Subtotal	**286,136**	108,957
Interest receivable	**126**	4
Total	**286,262**	108,961

(a) Analysed by nature of counterparties

	2020	2019
Amounts held under resale agreements in Mainland China		
– Banks	**29,227**	16,377
– Other financial institutions	**257,155**	92,955
Amounts held under resale agreements outside Mainland China		
– Other financial institutions	**497**	21
Subtotal	**286,879**	109,353
Less: Impairment allowances		
– Banks	**(185)**	(222)
– Other financial institutions	**(558)**	(174)
Subtotal	**(743)**	(396)
Total	**286,136**	108,957

(b) Analysed by residual maturity

	2020	2019
Maturing		
– Within one month (inclusive)	**279,446**	108,014
– Between one month and one year (inclusive)	**6,690**	943
Total	**286,136**	108,957

(c) Analysed by underlying assets

	2020	2019
Bonds	**278,817**	107,219
Bills	**7,319**	1,738
Total	**286,136**	108,957

(d) Movements of allowances for impairment losses are as follows:

	2020	2019
Balance as at the beginning of the year	**396**	737
Charge/(release) for the year (note 14)	**347**	(341)
Balance as at the end of the year	**743**	396

22. Loans and advances to customers

(a) Loans and advances to customers

	2020	2019
Gross amount of loans and advances to customers at amortised cost (i)	4,647,140	4,220,771
Interest receivable	9,528	9,514
Subtotal	4,656,668	4,230,285
Less: loss allowances of loans and advances to customers at amortised cost (i)	(234,426)	(222,756)
loss allowances of interest receivable	(96)	(143)
Subtotal	(234,522)	(222,899)
Loans and advances to customers at amortised cost	4,422,146	4,007,386
Loans and advances to customers at FVTOCI (ii)	375,359	264,135
Loans and advances to customers at FVTPL (iii)	6,856	5,779
Total	4,804,361	4,277,300

(i) Loans and advances to customers at amortised cost

	2020	2019
Corporate loans and advances	1,965,980	1,858,130
Retail loans and advances	2,681,160	2,362,616
Discount bills	–	25
Gross amount of loans and advances to customers at amortised cost	4,647,140	4,220,771
Less: loss allowances		
– Stage 1 (12-month ECL)	(159,918)	(138,803)
– Stage 2 (Lifetime ECL-not credit-impaired)	(27,401)	(37,644)
– Stage 3 (Lifetime ECL-credit impaired)	(47,107)	(46,309)
Subtotal	(234,426)	(222,756)
Net amount of loans and advances to customers at amortised cost	4,412,714	3,998,015

(ii) Loans and advances to customers at FVTOCI

	2020	2019
Corporate loans and advances	44,623	38,120
Discount bills	330,736	226,015
Loans and advances to customers at FVTOCI	375,359	264,135
Loss allowances		
– Stage 1 (12-month ECL)	(226)	(213)
– Stage 2 (Lifetime ECL-not credit-impaired)	(12)	(117)
– Stage 3 (Lifetime ECL-credit impaired)	–	(11)
Subtotal	(238)	(341)

No loss allowance is recognised in the consolidated statement of financial position for loans and advances to customers at FVTOCI as the carrying amount is at fair value.

(iii) Loans and advances to customers at FVTPL

	2020	2019
Corporate loans and advances	6,629	5,744
Interest receivable	227	35
Subtotal	6,856	5,779

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector and category:

Operations in the Mainland China

	2020	2019
Transportation, storage and postal services	**381,898**	306,642
Property development	**342,667**	308,342
Manufacturing	**256,173**	240,717
Production and supply of electric power, heating power, gas and water	**161,777**	144,530
Leasing and commercial services	**143,805**	144,377
Wholesale and retail	**132,055**	151,278
Construction	**101,442**	95,279
Finance	**74,892**	63,420
Telecommunications, software and IT services	**54,491**	51,406
Water, environment and public utilities management	**52,911**	57,044
Mining	**31,097**	29,744
Others	**65,330**	59,640
Subtotal of corporate loans and advances	**1,798,538**	1,652,419
Discounted bills	**327,479**	226,040
Residential mortgage	**1,264,466**	1,098,673
Credit cards	**746,560**	670,922
Micro-finance loans	**474,545**	405,155
Others	**156,713**	152,193
Subtotal of retail loans and advances	**2,642,284**	2,326,943
Gross amount of loans and advances to customers	**4,768,301**	4,205,402

Operations outside Mainland China

	2020	2019
Property development	**48,125**	60,035
Finance	**39,402**	63,286
Transportation, storage and postal services	**30,526**	30,567
Manufacturing	**26,962**	20,994
Wholesale and retail	**17,720**	11,579
Leasing and commercial services	**11,223**	28,992
Telecommunications, software and IT services	**9,644**	4,494
Mining	**9,579**	9,445
Production and supply of electric power, heating power, gas and water	**8,636**	5,553
Water, environment and public utilities management	**2,383**	1,219
Construction	**2,177**	2,196
Others	**12,317**	11,215
Subtotal of corporate loans and advances	**218,694**	249,575
Discounted bills	**3,257**	–
Residential mortgage	**10,349**	9,475
Credit cards	**127**	177
Micro-finance loans	**1,183**	625
Others	**27,217**	25,396
Subtotal of retail loans and advances	**38,876**	35,673
Gross amount of loans and advances to customers	**260,827**	285,248

As at 31 December 2020, over 90% of the Group's loans and advances to customers were conducted in the People's Republic of China (31 December 2019: over 90%).

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by type of guarantees:

	31 December 2020	31 December 2019
Credit loans	**1,758,502**	1,535,977
Guaranteed loans	**696,634**	636,709
Collateralised loans	**1,914,658**	1,859,500
Pledged loans	**328,598**	232,424
Subtotal	**4,698,392**	4,264,610
Discounted bills	**330,736**	226,040
Gross amount of loans and advances to customers	**5,029,128**	4,490,650

(iii) Analysed by overdue term:

	31 December 2020				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	**11,350**	**11,753**	**1,538**	**688**	**25,329**
Guaranteed loans	**737**	**3,982**	**6,165**	**2,268**	**13,152**
Collateralised loans	**3,116**	**3,901**	**4,033**	**1,883**	**12,933**
Pledged loans	**381**	**476**	**3,737**	**560**	**5,154**
Gross amount of loans and advances to customers	**15,584**	**20,112**	**15,473**	**5,399**	**56,568**

	31 December 2019				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	10,953	10,259	1,745	677	23,634
Guaranteed loans	2,608	3,952	6,732	3,519	16,811
Collateralised loans	4,691	4,207	3,800	3,068	15,766
Pledged loans	647	1,870	4,380	255	7,152
Gross amount of loans and advances to customers	18,899	20,288	16,657	7,519	63,363

Note: Loans are classified as overdue when the principal or interest is overdue more than one day.

Among the above-mentioned overdue loans and advances to customers, collateralised loans and pledged loans that are overdue but not impaired at the reporting date are as follows:

	31 December 2020	31 December 2019
Collateralised loans that are overdue but not impaired	**2,308**	3,904
Pledged loans that are overdue but not impaired	**177**	640
Total	**2,485**	4,544

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(iv) Analyzed by ECL

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Loans and advances measured at amortised cost	**4,517,239**	**76,286**	**53,615**	**4,647,140**
Less: Loss allowances of loans and advances to customers at amortised cost	**(159,918)**	**(27,401)**	**(47,107)**	**(234,426)**
Net amount of loans and advances to customers at amortised cost	**4,357,321**	**48,885**	**6,508**	**4,412,714**
Loans and advances to customers at FVTOCI	**374,800**	**559**	**–**	**375,359**
Loss allowances of loans and advances to customers at FVTOCI	**(226)**	**(12)**	**–**	**(238)**

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Loans and advances measured at amortised cost	4,088,065	80,141	52,565	4,220,771
Less: Loss allowances of loans and advances to customers at amortised cost	(138,803)	(37,644)	(46,309)	(222,756)
Net amount of loans and advances to customers at amortised cost	3,949,262	42,497	6,256	3,998,015
Loans and advances to customers at FVTOCI	263,144	972	19	264,135
Loss allowances of loans and advances to customers at FVTOCI	(213)	(117)	(11)	(341)

22. Loans and advances to customers *(continued)*

(c) Movements of allowance for expected credit loss

(i) Reconciliation of allowance for expected credit loss for loans and advances to customers measured at amortised cost:

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	**138,803**	**37,644**	**46,309**	**222,756**
Transfer to				
– Stage 1	**2,636**	**(2,571)**	**(65)**	**–**
– Stage 2	**(552)**	**1,398**	**(846)**	**–**
– Stage 3	**(565)**	**(10,698)**	**11,263**	**–**
Charge for the year (note 14)	**19,696**	**1,652**	**25,635**	**46,983**
Write-offs/disposes	**–**	**–**	**(43,734)**	**(43,734)**
Unwinding of discount on allowance	**–**	**–**	**(186)**	**(186)**
Recovery of loans and advances written off	**–**	**–**	**8,781**	**8,781**
Exchange difference	**(100)**	**(24)**	**(50)**	**(174)**
Balance as at the end of the year	**159,918**	**27,401**	**47,107**	**234,426**

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	105,978	38,517	47,277	191,772
Transfer to				
– Stage 1	3,108	(3,059)	(49)	–
– Stage 2	(605)	1,375	(770)	–
– Stage 3	(684)	(9,480)	10,164	–
Charge for the year (note 14)	30,869	10,271	12,961	54,101
Write-offs/disposes	–	–	(32,201)	(32,201)
Unwinding of discount on allowance	–	–	(286)	(286)
Recovery of loans and advances written off	–	–	9,170	9,170
Exchange difference	137	20	43	200
Balance as at the end of the year	138,803	37,644	46,309	222,756

(ii) Reconciliation of allowance for expected credit loss for loans and advances to customers measured at FVTOCI:

	2020	2019
Balance as at the beginning of the year	**341**	228
(Release)/charge for the year (note 14)	**(101)**	113
Exchange difference	**(2)**	–
Balance as at the end of the year	**238**	341

22. Loans and advances to customers *(continued)*

(d) Finance leases receivable

The table below provides an analysis of finance leases receivable included in loans and advances to customers for leases of equipment in which the Group is a lessor:

	2020	2019
Total minimum leases receivable		
Within 1 year (inclusive)	**20,999**	30,035
Over 1 year but within 2 years (inclusive)	**15,621**	22,547
Over 2 years but within 3 years (inclusive)	**10,720**	17,072
Over 3 years but within 4 years (inclusive)	**8,135**	12,446
Over 4 years but within 5 years (inclusive)	**6,280**	8,880
Over 5 years	**18,889**	30,775
Subtotal	**80,644**	121,755
Unearned finance income	**(8,370)**	(17,822)
Present value of minimum leases receivable	**72,274**	103,933
Less: Impairment allowances		
– Stage 1 (12-month ECL)	**(1,704)**	(1,965)
– Stage 2 (Lifetime ECL-not credit-impaired)	**(931)**	(1,608)
– Stage 3 (Lifetime ECL-credit impaired)	**(859)**	(743)
Net carrying amount of finance leases receivable	**68,780**	99,617

23. Investments

	Notes	**2020**	2019
Financial assets at fair value through profit or loss	23(a)	**495,723**	398,276
Derivative financial assets	60(f)	**47,272**	24,219
Debt investments at amortised cost	23(b)	**1,049,280**	921,228
Debt investments at FVTOCI	23(c)	**516,553**	478,856
Equity investments designated at FVTOCI	23(d)	**7,139**	6,077
Total		**2,115,967**	1,828,656

(a) Financial assets at fair value through profit or loss

	Notes	**2020**	2019
Investments measured at FVTPL	(i)	**464,466**	393,038
Financial assets designated at fair value through profit or loss	(ii)	**31,257**	5,238
Total		**495,723**	398,276

23. Investments *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

(i) Investments measured at FVTPL

Financial assets held for trading

	2020	2019
Bonds:		
Classified by issuer		
– Government bonds	32,254	24,671
– Bonds issued by policy banks	4,845	10,364
– Bonds issued by commercial banks and other financial institutions	22,636	20,641
– Other debt securities	71,395	52,922
Subtotal	131,130	108,598
Classified by listing		
– Listed in Mainland China	110,561	92,258
– Listed outside Mainland China	20,361	15,178
– Unlisted	208	1,162
Subtotal	131,130	108,598
Other investments:		
Classified by underlying assets		
– Equity investments	56	242
– Investments in funds	2,971	4,084
– Wealth management products	961	–
– Long position in precious metal contracts	96	183
Subtotal	4,084	4,509
Classified by listing		
– Listed in Mainland China	31	231
– Listed outside Mainland China	140	190
– Unlisted	3,913	4,088
Subtotal	4,084	4,509
Total financial assets held for trading	135,214	113,107

23. Investments *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

(i) Investments measured at FVTPL *(continued)*

Other investments measured at FVTPL

	2020	2019
Bonds:		
Classified by issuer		
– Bonds issued by commercial banks and other financial institutions	8,706	4,294
– Other debt securities	6,727	5,126
Subtotal	15,433	9,420
Classified by listing		
– Listed in Mainland China	14,244	8,950
– Listed outside Mainland China	995	71
– Unlisted	194	399
Subtotal	15,433	9,420
Other investments:		
Classified by underlying assets		
– Non-standard assets – Bills	175,303	199,817
– Equity investments	3,294	2,215
– Investments in funds	133,861	67,615
– Wealth management products	298	864
– Others	1,063	–
Subtotal	313,819	270,511
Classified by listing		
– Listed in Mainland China	3,243	121
– Listed outside Mainland China	–	790
– Unlisted	310,576	269,600
Subtotal	313,819	270,511
Total other investments measured at FVTPL	329,252	279,931

(ii) Financial assets designated at fair value through profit or loss

	2020	2019
Bonds:		
Classified by issuer		
– Government Bonds	41	116
– Bonds issued by policy banks	18,431	79
– Bonds issued by commercial banks and other financial institutions	10,567	1,630
– Other debt securities	2,218	3,413
Total	31,257	5,238
Classified by listing		
– Listed in Mainland China	28,533	116
– Listed outside Mainland China	2,710	4,830
– Unlisted	14	292
Total	31,257	5,238

The amounts of changes in the fair value of these investments that are attributable to changes in credit risk are considered not significant during the years ended 31 December 2020 and 2019 and as at 31 December 2020 and 2019.

23. Investments *(continued)*

(b) Debt investments at amortised cost

	2020	2019
Debt investments at amortised cost (i)(ii)	**1,060,387**	921,467
Interest receivable	**15,099**	13,821
Subtotal	**1,075,486**	935,288
Impairment losses of principal (i)(ii)(iii)	**(26,118)**	(13,995)
Impairment losses of interest receivable	**(88)**	(65)
Subtotal	**(26,206)**	(14,060)
Total	**1,049,280**	921,228

(i) Debt investments at amortised cost:

	2020	2019
Bonds:		
Classified by issuer		
– Government bonds	**623,727**	498,310
– Bonds issued by policy banks	**252,996**	239,480
– Bonds issued by commercial banks and other financial institutions	**28,157**	33,026
– Other debt securities	**6,529**	7,354
Subtotal	**911,409**	778,170
Classified by listing		
– Listed in Mainland China	**906,053**	772,837
– Listed outside Mainland China	**2,064**	3,243
– Unlisted	**3,292**	2,090
Subtotal	**911,409**	778,170
Fair value for the listed bonds	**916,422**	794,212
Other investments:		
Classified by underlying assets		
– Non-standard assets – Bills	**12,725**	1,334
– Non-standard assets – Loans and advances to customers	**123,681**	138,749
– Non-standard assets – Creditor's beneficiary rights to other commercial banks	**6,400**	2,650
– Non-standard assets – Others	**5,580**	–
– Others	**592**	564
Subtotal	**148,978**	143,297
Classified by listing		
– Unlisted	**148,978**	143,297
Total	**1,060,387**	921,467
Less: loss allowances		
Stage 1 (12-month ECL)	**(11,832)**	(9,179)
Stage 2 (Lifetime ECL-not credit-impaired)	**(326)**	(283)
Stage 3 (Lifetime ECL-credit impaired)	**(13,960)**	(4,533)
Subtotal	**(26,118)**	(13,995)
Net debt investments at amortised cost	**1,034,269**	907,472

23. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(ii) Analyzed by stage of ECL:

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Debt investments at amortised cost	1,044,826	971	14,590	1,060,387
Less: Loss allowances of debt investments at amortised cost	(11,832)	(326)	(13,960)	(26,118)
Net debt investments at amortised cost	1,032,994	645	630	1,034,269

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Debt investments at amortised cost	916,206	580	4,681	921,467
Less: Loss allowances of debt investments at amortised cost	(9,179)	(283)	(4,533)	(13,995)
Net debt investments at amortised cost	907,027	297	148	907,472

(iii) Movements of allowances for expected credit loss

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	9,179	283	4,533	13,995
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	–	–	–	–
– Stage 3	(204)	–	204	–
Charge for the year (note 14)	2,858	43	10,974	13,875
Write-offs	–	–	(1,822)	(1,822)
Recoveries of debt previously written off	–	–	80	80
Exchange difference	(1)	–	(9)	(10)
Balance as at the end of the year	11,832	326	13,960	26,118

23. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(iii) Movements of allowances for expected credit loss *(continued)*

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	3,582	517	3,981	8,080
Transfer to:				
– Stage 1	1	(1)	–	–
– Stage 2	–	–	–	–
– Stage 3	(2)	(1)	3	–
Charge/(Release) for the year (note 14)	5,593	(232)	442	5,803
Unwinding of discount on allowance	–	–	(2)	(2)
Recoveries of debt previously written off	–	–	105	105
Exchange difference	5	–	4	9
Balance as at the end of the year	9,179	283	4,533	13,995

(c) Debt investments at FVTOCI

	2020	2019
Debt investments at FVTOCI (i)	**510,307**	472,586
Interest receivable	**6,246**	6,270
Total	**516,553**	478,856
Impairment losses of debt investments at FVTOCI (ii)	**(4,014)**	(2,600)
Impairment losses of interest receivable	**(1)**	(1)
Total	**(4,015)**	(2,601)

No impairment allowances are recognised in the consolidated statement of financial position for debt investments at FVTOCI as the carrying amount is at fair value.

(i) Debt investments at FVTOCI:

	2020	2019
Bonds:		
Classified by issuer		
– Government bonds	**287,007**	260,092
– Bonds issued by policy banks	**71,542**	66,318
– Bonds issued by commercial banks and other financial institutions	**97,487**	102,750
– Other debt securities	**54,271**	43,426
Total	**510,307**	472,586
Classified by listing		
– Listed in Mainland China	**400,456**	323,090
– Listed outside Mainland China	**64,191**	54,995
– Unlisted	**45,660**	94,501
Total	**510,307**	472,586

23. Investments *(continued)*

(c) Debt investments at FVTOCI *(continued)*

(ii) Movements of allowances for expected credit loss

	2020	2019
Balance as at the beginning of the year	**2,600**	1,897
Charge for the year (note 14)	**1,492**	678
Unwinding of discount on allowance	**–**	(3)
Exchange difference	**(78)**	28
Balance as at the end of the year	**4,014**	2,600

(d) Equity investments designated at FVTOCI

	2020	2019
Repossessed equity instruments	**899**	625
Others	**6,240**	5,452
Total	**7,139**	6,077
Classified by listing		
– Listed in Mainland China	**52**	197
– Listed outside Mainland China	**2,023**	2,131
– Unlisted	**5,064**	3,749
Total	**7,139**	6,077

During the year ended 31 December 2020, the group disposed part of the equity investments designated at FVTOCI. The fair value of the equity investments disposed at the date of derecognition was RMB433 million (2019: RMB112 million), the cumulative gain on disposal of RMB26 million (2019: the cumulative loss RMB23 million) was transferred from investment revaluation reserve to retained profits on disposal.

24. Particulars of principal subsidiaries of the bank

The following list contains only particulars of subsidiaries which principally affected the financial results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 4(1) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities	Economic nature	Legal representative
CMB International Capital Holdings Corporation Limited (note (i))	Hong Kong	HKD4,129	100%	Investment bank and investment managements	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (note (ii))	Shanghai	RMB6,000	100%	Finance lease	Limited company	Shi Shunhua
CMB Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited company	Zhu Qi
China Merchants Fund Management Co., Ltd. (note (iv))	Shenzhen	RMB1,310	55%	Fund management	Limited company	Liu Hui
CMB Wealth Management Co., Ltd (note (v))	Shenzhen	RMB5,000	100%	Asset management	Limited company	Liu Hui
China Merchants Europe S.A. (note (vi))	Luxembourg	EUR50	100%	Banking	Limited company	Li Biao
Cigna & CMB Asset Management Company Limited (note (vii))	Beijing	RMB500	(note (vii))	Asset management	Limited company	Liu Hui

24. Particulars of principal subsidiaries of the bank *(continued)*

Notes:

(i) CMB International Capital Holdings Corporation Limited ("CMBICHC"), formerly known as Jiangnan Finance Company Limited and CMB International Capital Corporation Limited, is the Bank's wholly-owned subsidiary approved by the PBOC through its Yin Fu [1998] No. 405. In 2014, the Bank made an additional capital contribution of HKD750 million in CMBICHC. The capital of CMBICHC increased to HKD1,000 million, and the Bank's shareholding percentage remains unchanged.

The Board of Directors have considered and passed "The Resolution regarding the Capital Increase and Restructuring of CMBICHC" which agreed that the Bank made capital contribution of USD400 million (or its equivalent) to CMBICHC on 28 July 2015. The capital contribution completed on 20 January 2016.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the CBIRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In 2014, the Bank made an additional capital contribution of RMB2,000 million in CMBFLC. The capital of CMBFLC increased to RMB6,000 million and the Bank's shareholding percentage remains unchanged.

(iii) CMB Wing Lung Bank Limited ("CMB WLB"), formerly known as Wing Lung Bank Limited. On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. CMB WLB became a wholly owned subsidiary of the bank on 15 January 2009. CMB WLB had withdrawn from listing on the HKEx as of 16 January 2009.

(iv) In 2012, the Bank acquired 21.60% equity interests in China Merchants Fund Management Co., Ltd. ("CMFM"), its former associate, from ING Asset Management B.V. at a consideration of EUR63,567,567.57. Following the settlement of the above consideration in cash, the Bank's shareholding in CMFM increased from 33.40% to 55.00% in 2013. As a result, the Bank obtained the control over CMFM, which became the Bank's subsidiary on 28 November 2013. In December 2017, the Bank made an additional capital contribution of RMB605 million in CMFM, and other shareholders of CMFM also make capital contribution of RMB495 million proportionally. The capital of CMFM increased to RMB1,310 million, and the Bank's shareholding percentage remains unchanged.

(v) CMB Wealth Management Co., Ltd. ("CMBWM") is a wholly-owned subsidiary approved by the Bank with the China Banking Regulatory Commission, Yinbao Jianfu [2019] No. 981, and commenced its operation on November 1, 2019.

(vi) China Merchants Europe S.A. ("CMB Europe S.A.") is a wholly-owned subsidiary approved by the Bank of China Banking Regulatory Commission Yinbao Jian Fu [2016] No. 460. It was formally established in November 2019, and the commercial banking license is yet to be issued by the Luxembourg financial regulatory authority (CSSF).

(vii) Cigna & CMB Asset Management Company Limited ("CIGNA & CMAM") is a subsidiary established by the Group and China Merchants Cigna Life Insurance Co., Ltd., a joint venture of the Bank, and approved by the Bank with the China Banking Regulatory Commission, Yinbao Jianfu [2020] No.708, CIGNA & CMAM commenced its operation on October 18, 2020.

25. Interest in joint ventures

	2020	2019
Share of net assets	**12,403**	10,324
Share of profits for the year	**2,392**	1,686
Share of other comprehensive income for the year	**456**	351

Details of the Group's interest in major joint ventures are as follows:

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership of the Bank	Percentage of ownership of the subsidiaries	Principal activity
CIGNA & CMB Life Insurance Company Limited (note(i))	Limited company	Shenzhen	RMB2,800,000	50.00%	50.00%	–	Life insurance business
Merchants Union Consumer Finance Company Limited (note(ii))	Limited company	Shenzhen	RMB3,868,964	50.00%	24.15%	25.85%	Consumer finance

Notes:

(i) The Group holds 50.00% equity interests in CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds the other 50.00% equity interests in CIGNA & CMB Life. CIGNA & CMB Life is the only joint venture directly held by the Bank. The Bank and INA share the joint venture's profits, risks and losses by their proportion of shareholding. The Bank's investment in CIGNA & CMB Life is accounted for as an investment in a joint venture.

(ii) The Bank's subsidiary, CMB WLB, and China United Network Communications Limited ("CUNC"), which is a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). CBIRC has approved the operation of MUCFC on 3 March 2015. CMB WLB and CUNC hold 50.00% equity interests in MUCFC respectively and share the risks, profits and losses based on the above proportion of their shareholding. In December 2017, the Group made an additional capital contribution of RMB600 million to CUNC, with the other shareholder of CUNC injected capital proportionally. The capital of CUNC increased to RMB2,859 million, and the Bank's shareholding percentage reached 15%, CMB WLB's shareholding percentage decreased to 35%, whilst the Group's shareholding percentage remained unchanged. In December 2018, the Group made an additional capital contribution of RMB1,000 million to CUNC, and the other shareholder of CUNC injected capital proportionally. The Bank's shareholding percentage is 24.15%, CMB WLB's shareholding percentage is 25.85%, and the Group's shareholding percentage remains unchanged.

25. Interest in joint ventures *(continued)*

Summarised financial information of the joint ventures which are individually material to the Group is as below:

(i) CIGNA & CMB Life:

	Assets	Liabilities	Equity	Revenue	Net profit	Other comprehensive income	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2020										
CIGNA & CMB Life	**75,196**	**65,259**	**9,937**	**23,608**	**1,638**	**912**	**2,550**	**437**	**56**	**299**
Group's effective interest	**37,386**	**32,630**	**4,756**	**11,804**	**812**	**456**	**1,268**	**219**	**28**	**150**
2019										
CIGNA & CMB Life	58,752	51,089	7,663	20,164	1,378	724	2,102	522	47	221
Group's effective interest	29,376	25,545	3,831	10,082	689	351	1,040	261	24	111

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Net profit	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2020									
MUCFC	**108,881**	**97,858**	**11,023**	**12,816**	**1,663**	**1,663**	**2,447**	**44**	**501**
Group's effective interest	**54,441**	**48,929**	**5,512**	**6,408**	**832**	**832**	**1,224**	**22**	**251**
2019									
MUCFC	92,697	83,337	9,360	10,740	1,466	1,466	1,015	44	426
Group's effective interest	46,349	41,669	4,680	5,370	734	734	508	22	213

Summarised financial information of the joint ventures that are not individually material to the Group:

	Net profit	Other comprehensive income	Total comprehensive income
2020			
Others	**4,349**	–	**4,349**
Group's effective interest	**748**	–	**748**
2019			
Others	1,403	–	1,403
Group's effective interest	263	–	263

26. Interest in associates

	2020	2019
Share of net assets	**2,519**	460
Share of profits for the year	**489**	37
Share of other comprehensive income for the year	**7**	17

The following list contains the information of associates, which are unlisted corporate entities and are not individually material to the Group:

	Net profit	Other comprehensive income	Total comprehensive income
2020			
Others	**36,557**	**25**	**36,582**
Group's effective interest	**489**	**7**	**496**
2019			
Others	3,764	93	3,857
Group's effective interest	37	17	54

27. Investment properties

	2020	2019
Cost:		
At 1 January	**3,558**	3,488
Transfers (out)/in	**(173)**	32
Exchange difference	**(109)**	38
At 31 December	**3,276**	3,558
Accumulated depreciation:		
At 1 January	**1,633**	1,427
Depreciation	**166**	171
Transfers (out)/in	**(72)**	18
Exchange difference	**(74)**	17
At 31 December	**1,653**	1,633
Net carrying amount:		
At 31 December	**1,623**	1,925
At 1 January	**1,925**	2,061

As at 31 December 2020, no impairment allowance was considered necessary for investment properties by the management of the Group (2019: Nil).

27. Investment properties *(continued)*

Investment properties of the Group mainly represent the leased properties of CMB WLB and the Bank's properties in Beijing, Shenzhen, Zhengzhou, Qingdao and Hefei, etc. that have been leased out under operating leases. The fair value of the Group's investment properties is determined by the method of capitalization of net rental income. There has been no change to the valuation methodology during the year. As at 31 December 2020, the fair value of these properties was RMB5,317 million (As at 31 December 2019: RMB5,675 million). The Group's total future minimum leases receivable under non-cancellable operating leases are as follows:

	2020	2019
Within 1 year (inclusive)	**625**	414
1 year to 2 years (inclusive)	**358**	267
2 year to 3 years (inclusive)	**114**	148
3 year to 4 years (inclusive)	**87**	68
4 year to 5 years (inclusive)	**66**	64
Over 5 years	**364**	424
Total	**1,614**	1,385

The fair value hierarchy of the investment properties of the Group are listed as below:

	Level 1	**Level 2**	**Level 3**	**Fair Value as at 31 December 2020**
Located in Mainland China	**–**	**–**	**2,927**	**2,927**
Located overseas	**–**	**–**	**2,390**	**2,390**
Total	**–**	**–**	**5,317**	**5,317**

	Level 1	Level 2	Level 3	Fair Value as at 31 December 2019
Located in Mainland China	–	–	2,838	2,838
Located overseas	–	–	2,837	2,837
Total	–	–	5,675	5,675

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

28. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2020	27,356	2,964	13,750	8,510	43,309	6,351	102,240
Additions	290	1,003	2,078	1,081	10,475	777	15,704
Reclassification and transfers	841	(860)	25	172	–	(5)	173
Disposals	(33)	–	(641)	(12)	(2,613)	(821)	(4,120)
Exchange difference	(175)	–	(63)	(90)	(3,047)	(3)	(3,378)
At 31 December 2020	28,279	3,107	15,149	9,661	48,124	6,299	110,619
Accumulated depreciation:							
At 1 January 2020	10,512	–	10,163	5,441	4,523	5,100	35,739
Depreciation	1,270	–	1,948	779	3,109	443	7,549
Reclassification and transfers	72	–	23	–	–	(23)	72
Disposals	(13)	–	(609)	(5)	(479)	(704)	(1,810)
Exchange difference	(91)	–	(36)	(83)	(424)	(3)	(637)
At 31 December 2020	11,750	–	11,489	6,132	6,729	4,813	40,913
Impairment loss:							
At 1 January 2020	–	–	–	–	93	–	93
Additions	–	–	–	–	153	–	153
Exchange difference	–	–	–	–	(10)	–	(10)
At 31 December 2020	–	–	–	–	236	–	236
Net carrying amount:							
At 31 December 2020	16,529	3,107	3,660	3,529	41,159	1,486	69,470
At 1 January 2020	16,844	2,964	3,587	3,069	38,693	1,251	66,408

28. Property and equipment *(continued)*

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2019	25,923	1,646	12,276	7,669	33,904	6,369	87,787
Additions	1,510	1,506	1,882	847	14,168	726	20,639
Reclassification and transfers	104	(188)	–	52	–	–	(32)
Disposals	(244)	–	(427)	(76)	(5,249)	(746)	(6,742)
Exchange difference	63	–	19	18	486	2	588
At 31 December 2019	27,356	2,964	13,750	8,510	43,309	6,351	102,240
Accumulated depreciation:							
At 1 January 2019	9,412	–	8,789	4,869	3,169	5,342	31,581
Depreciation	1,233	–	1,765	587	2,165	458	6,208
Reclassification and transfers	(18)	–	–	–	–	–	(18)
Disposals	(152)	–	(401)	(24)	(878)	(701)	(2,156)
Exchange difference	37	–	10	9	67	1	124
At 31 December 2019	10,512	–	10,163	5,441	4,523	5,100	35,739
Impairment loss:							
At 1 January 2019	–	–	–	–	–	–	–
Additions	–	–	–	–	93	–	93
At 31 December 2019	–	–	–	–	93	–	93
Net carrying amount:							
At 31 December 2019	16,844	2,964	3,587	3,069	38,693	1,251	66,408
At 1 January 2019	16,511	1,646	3,487	2,800	30,735	1,027	56,206

(a) As at 31 December 2020, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB1,565 million (31 December 2019: RMB2,516 million) was still in progress.

(b) As at 31 December 2020, the Group has no significant unused property and equipment (31 December 2019: nil).

(c) The Group's total future minimum lease receivables under non-cancellable operating leases are receivables as follows:

	2020	2019
Within 1 year (inclusive)	**5,851**	4,740
1 year to 2 years (inclusive)	**5,316**	4,677
2 year to 3 years (inclusive)	**4,883**	4,427
3 year to 4 years (inclusive)	**4,303**	4,133
4 year to 5 years (inclusive)	**3,916**	3,456
Over 5 years	**13,550**	13,057
Total	**37,819**	34,490

29. Lease contracts

(a) Right-of-use assets

	Land use rights	Buildings	Computer equipment	Motor vehicles and others	Total
Cost:					
At 1 January 2020	5,968	18,602	3	18	24,591
Additions	–	3,888	4	2	3,894
Disposals	(11)	(1,368)	(3)	(4)	(1,386)
At 31 December 2020	5,957	21,122	4	16	27,099
Accumulated depreciation:					
At 1 January 2020	830	3,755	1	5	4,591
Depreciation (Note 10)	183	4,228	2	3	4,416
Disposals	(4)	(1,005)	(1)	(2)	(1,012)
At 31 December 2020	1,009	6,978	2	6	7,995
Net carrying amount:					
At 31 December 2020	4,948	14,144	2	10	19,104
At 1 January 2020	5,138	14,847	2	13	20,000

	Land use rights	Buildings	Computer equipment	Motor vehicles and others	Total
Cost:					
At 1 January 2019	6,074	13,690	5	5	19,774
Additions	–	5,421	1	16	5,438
Disposals	(106)	(509)	(3)	(3)	(621)
At 31 December 2019	5,968	18,602	3	18	24,591
Accumulated depreciation:					
At 1 January 2019	662	–	–	–	662
Depreciation (Note 10)	185	4,173	1	5	4,364
Disposals	(17)	(418)	–	–	(435)
At 31 December 2019	830	3,755	1	5	4,591
Net carrying amount:					
At 31 December 2019	5,138	14,847	2	13	20,000
At 1 January 2019	5,412	13,690	5	5	19,112

The Group mainly leases land use rights and buildings for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2020, there is no such triggering event (2019: nil).

29. Lease contracts *(continued)*

(b) Lease liabilities

As at 31 December 2020 and 2019, analysis of the Group's lease liabilities by residual maturity is as follows:

	2020	2019
Within 1 month (inclusive)	**527**	527
1 month to 3 months (inclusive)	**488**	476
3 months to 1 years (inclusive)	**2,805**	2,729
1 year to 5 years (inclusive)	**8,577**	8,436
Over 5 years	**1,845**	2,211
Total	**14,242**	14,379

Interest expense on lease liabilities are set out in note 7.

(c) Short-term leases and leases of low-value assets

Short-term leases expense and leases of low-value assets expense are disclosed in note 10. The Group entered into short-term leases for buildings, computer equipment, motor vehicles and others.

(d) During the period of 2020, the total cash outflow of the Group's leases amount to RMB4,644 million (During the period of 2019: RMB4,604 million).

(e) As at 31 December 2020 and 2019, the leases committed but not yet commenced is not significant.

30. Intangible assets

	Software and others	Core deposits	Total
Cost:			
At 1 January 2020	8,161	1,186	9,347
Additions	1,419	–	1,419
Exchange difference	(4)	(68)	(72)
At 31 December 2020	9,576	1,118	10,694
Amortisation:			
At 1 January 2020	4,294	478	4,772
Charge for the year (Note 10)	1,148	40	1,188
Exchange difference	–	(29)	(29)
At 31 December 2020	5,442	489	5,931
Net carrying amount:			
At 31 December 2020	4,134	629	4,763
At 1 January 2020	3,867	708	4,575

	Software and others	Core deposits	Total
Cost:			
At 1 January 2019	6,322	1,162	7,484
Additions	1,840	–	1,840
Disposals	(3)	–	(3)
Exchange difference	2	24	26
At 31 December 2019	8,161	1,186	9,347
Amortisation:			
At 1 January 2019	3,319	427	3,746
Charge for the year (Note 10)	973	41	1,014
Disposals	–	–	–
Exchange difference	2	10	12
At 31 December 2019	4,294	478	4,772
Net carrying amount:			
At 31 December 2019	3,867	708	4,575
At 1 January 2019	3,003	735	3,738

31. Goodwill

	As at 1 January 2020	Addition in the year	Release in the year	As at 31 December 2020	Impairment loss at 1 January 2020 and 31 December 2020	Net value at 1 January 2020 and 31 December 2020
CMB WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
Zhaoyin Internet (note (iii))	1	–	–	1	–	1
Total	10,533	–	–	10,533	(579)	9,954

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. On the acquisition date, the fair value of CMB WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill. The details about CMB WLB are set out in Note 24.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million of which the Bank accounted for RMB414 million. A sum of RMB355 million being the excess of acquisition cost 769 million over the fair value of the identifiable net assets was recognised as goodwill. The details about CMFM are set out in Note 24.

(iii) On 1 April 2015, CMBICHC acquired a 100% equity interests in Zhaoyin Internet Technology (Shenzhen) Corporation Limited ("Zhaoyin Internet"). On the acquisition date, the fair value of Zhaoyin Internet's identifiable net assets was RMB3 million. A sum of RMB1 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill. Zhaoyin Internet's principal activities include development and sale of computer software and hardware, sale of communication equipment and office automation equipment, advisory service of computer technology and information.

Impairment test for CGU containing goodwill

Goodwill is allocated to the Group's CGU, CMB WLB which was acquired on 30 September 2008 and CMFM which was acquired on 28 November 2013 and Zhaoyin Internet which was acquired on 1 April 2015.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed that the terminal growth rate is comparable to the forecast long-term economic growth rate issued by authoritative institutions. A pre-tax discount rate of 9% and 12% (2019: 9% and 12%) was used. The Group believes any reasonably possible further change in the key assumptions on which recoverable amount are based would not cause the carrying amounts to exceed their recoverable amounts.

32. Deferred tax assets, deferred tax liabilities

	2020	2019
Deferred tax assets	**72,893**	65,151
Deferred tax liabilities	**(1,073)**	(956)
Net amount	**71,820**	64,195

(a) Analysed by nature of deferred tax assets and liabilities

The components of deferred tax assets/liabilities are as follows:

	2020		2019	
	Deductible/ (taxable) temporary difference	**Deferred tax**	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers and other assets at amortised cost	**245,221**	**61,340**	237,143	59,185
Financial assets at FVTOCI	**(6,673)**	**(1,406)**	(8,952)	(2,238)
Financial instruments at FVTPL	**6,309**	**1,577**	(1,263)	(316)
Salary and welfare payable	**37,592**	**9,363**	26,482	6,621
Others	**8,665**	**2,019**	7,580	1,899
Total	**291,114**	**72,893**	260,990	65,151
Deferred tax liabilities				
Impairment allowances on loans and advances to customers and other assets at amortised cost	**–**	**–**	291	47
Financial assets at FVTOCI	**10**	**2**	(29)	(6)
Financial instruments at FVTPL	**8**	**2**	11	3
Others	**(6,677)**	**(1,077)**	(6,376)	(1,000)
Total	**(6,659)**	**(1,073)**	(6,103)	(956)

32. Deferred tax assets, deferred tax liabilities *(continued)*

(b) Movements of deferred tax

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	Salary and welfare payable	Others	Total
At 1 January 2020	59,232	(2,244)	(313)	6,621	899	64,195
Recognised in profit or loss	2,160	336	1,899	2,742	28	7,165
Recognised in other comprehensive Income	–	507	–	–	(3)	504
Exchange difference	(52)	(3)	(7)	–	18	(44)
At 31 December 2020	61,340	(1,404)	1,579	9,363	942	71,820

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	Salary and welfare payable	Others	Total
At 1 January 2019	51,718	(1,437)	1,911	4,646	325	57,163
Recognised in profit or loss	7,491	177	(2,224)	1,975	541	7,960
Recognised in other comprehensive Income	–	(984)	–	–	13	(971)
Exchange difference	23	–	–	–	20	43
At 31 December 2019	59,232	(2,244)	(313)	6,621	899	64,195

Note: No deferred tax liability has been recognised in respect of temporary differences associated with investments in subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

33. Other assets

	2020	2019
Amounts pending for settlement	**48,423**	11,219
Continuing involvement assets	**3,128**	987
Interest receivable	**2,972**	3,148
Prepaid lease payments	**314**	345
Repossessed assets (a)	**612**	768
Guarantee deposits	**510**	619
Recoverable from reinsurers	**190**	192
Prepayment for lease hold improvement and other miscellaneous items	**4,985**	3,436
Premium receivables	**150**	122
Post-employment benefits		
– Defined benefit plan (Note 39(b))	**60**	22
Others	**24,115**	17,132
Total	**85,459**	37,990

(a) Repossessed assets

	2020	2019
Residential properties	**700**	923
Others	**14**	19
Total	**714**	942
Less: impairment allowances	**(102)**	(174)
Net repossessed assets	**612**	768

Notes:

(i) In 2020, the Group has disposed of repossessed assets with a total cost of RMB228 million (2019: RMB15 million).

(ii) The Group plans to dispose of the repossessed assets by auction, bid or agreement transfer.

34. Deposits from banks and other financial institutions

	2020	2019
Principal (a)	**719,764**	553,684
Interest payable	**3,638**	1,897
Total	**723,402**	555,581

(a) Analysed by nature of counterparties

	2020	2019
In Mainland China		
– Banks	**143,846**	60,111
– Other financial institutions	**568,557**	478,894
Subtotal	**712,403**	539,005
Outside Mainland China		
– Banks	**6,964**	14,638
– Other financial institutions	**397**	41
Subtotal	**7,361**	14,679
Total	**719,764**	553,684

35. Placements from banks and other financial institutions

	2020	2019
Principal (a)	**143,117**	165,403
Interest payable	**400**	518
Total	**143,517**	165,921

(a) Analysed by nature of counterparties

	2020	2019
In Mainland China		
– Banks	**75,768**	77,526
– Other financial institutions	**21,142**	9,138
Subtotal	**96,910**	86,664
Outside Mainland China		
– Banks	**46,011**	78,739
– Other financial institutions	**196**	–
Subtotal	**46,207**	78,739
Total	**143,117**	165,403

36. Financial liabilities at fair value through profit or loss

	2020	2019
Financial liabilities held for trading (a)	**20,990**	14,888
Financial liabilities designated at fair value through profit or loss (b)	**39,361**	28,546
Total	**60,351**	43,434

(a) Financial liabilities held for trading

	2020	2019
Financial liabilities related to Precious metal	**20,361**	13,701
Short selling securities	**629**	1,187
Total	**20,990**	14,888

(b) Financial liabilities designated at fair value through profit or loss

	2020	2019
In Mainland China		
– Precious metal contracts with other banks	**1,589**	9,217
– Others	**20,773**	9,092
Outside Mainland China		
– Certificates of deposit issued	**605**	767
– Debt securities issued	**13,914**	9,237
– Others	**2,480**	233
Total	**39,361**	28,546

As at 31 December 2020 and 2019, the difference between the fair values of the Group's financial liabilities designated at fair value through profit or loss and the contractual payable at maturity is not significant. The amounts of changes in the fair value that are attributable to changes in credit risk of these liabilities are not significant during the years ended 31 December 2020 and 2019 and as at 31 December 2020 and 2019.

37. Amounts sold under repurchase agreements

	2020	2019
Principal (a) (b)	**142,881**	63,107
Interest payable	**46**	126
Total	**142,927**	63,233

(a) Analysed by nature of counterparties

	2020	2019
In Mainland China		
– Banks	**136,248**	59,383
– Other financial institutions	**980**	480
Subtotal	**137,228**	59,863
Outside Mainland China		
– Banks	**4,868**	1,845
– Other financial institutions	**785**	1,399
Subtotal	**5,653**	3,244
Total	**142,881**	63,107

(b) Analysed by the type of underlying assets

	2020	2019
Debt securities		
– PRC government bonds	**45,684**	30,962
– Bonds issued by policy banks	**53,445**	21,941
– Bonds issued by commercial banks and other financial institutions	**4,872**	493
– Other debt securities	**4,351**	3,337
Subtotal	**108,352**	56,733
Discounted bills	**34,529**	6,374
Total	**142,881**	63,107

38. Deposits from customers

	2020	2019
Principal (a)	**5,628,336**	4,844,422
Interest payable	**35,799**	30,559
Total	**5,664,135**	4,874,981

(a) Analysed by nature of counterparties

	2020	2019
Corporate customers		
– Demand deposits	**2,306,134**	1,692,068
– Time deposits	**1,289,556**	1,346,033
Subtotal	**3,595,690**	3,038,101
Retail customers		
– Demand deposits	**1,400,520**	1,171,221
– Time deposits	**632,126**	635,100
Subtotal	**2,032,646**	1,806,321
Total	**5,628,336**	4,844,422

(b) The deposits taken from customers as collateral or for the purpose of guarantees are as follows:

	2020	2019
Guarantee for acceptance bills	**83,095**	62,809
Guarantee for loans	**31,859**	29,620
Guarantee for issuing letters of credit	**16,437**	19,086
Deposit for letters of guarantee	**28,923**	26,878
Others	**33,929**	24,734
Total	**194,243**	163,127

39. Staff welfare scheme

(a) Salaries and welfare payable

	2020			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	**10,872**	**44,407**	**(41,124)**	**14,155**
Post-employment benefits – defined contribution plans (ii)	**699**	**3,410**	**(2,869)**	**1,240**
Other long-term employee benefits (iii)	**67**	**30**	**(30)**	**67**
Total	**11,638**	**47,847**	**(44,023)**	**15,462**

	2019			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	8,297	41,429	(38,854)	10,872
Post-employment benefits – defined contribution plans (ii)	129	3,966	(3,396)	699
Other long-term employee benefits (iii)	49	54	(36)	67
Total	8,475	45,449	(42,286)	11,638

(i) Short-term employee benefits

	2020			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	**8,451**	**34,037**	**(31,367)**	**11,121**
Welfare expense	**69**	**4,156**	**(4,201)**	**24**
Social insurance				
– Medical insurance	**107**	**2,541**	**(2,257)**	**391**
– Injury insurance	**6**	**20**	**(20)**	**6**
– Maternity insurance	**7**	**79**	**(75)**	**11**
Housing reserve	**246**	**1,921**	**(1,976)**	**191**
Labour union and employee education expenses	**1,986**	**1,653**	**(1,228)**	**2,411**
Total	**10,872**	**44,407**	**(41,124)**	**14,155**

	2019			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	6,112	31,232	(28,893)	8,451
Welfare expense	73	4,267	(4,271)	69
Social insurance				
– Medical insurance	38	2,358	(2,289)	107
– Injury insurance	4	26	(24)	6
– Maternity insurance	5	95	(93)	7
Housing reserve	198	2,015	(1,967)	246
Labour union and employee education expenses	1,867	1,436	(1,317)	1,986
Total	8,297	41,429	(38,854)	10,872

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plans

	2020			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Basic retirement security	**69**	**1,449**	**(1,388)**	**130**
Supplementary pension	**610**	**1,916**	**(1,438)**	**1,088**
Unemployment insurance	**20**	**45**	**(43)**	**22**
Total	**699**	**3,410**	**(2,869)**	**1,240**

	2019			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Basic retirement security	65	2,246	(2,242)	69
Supplementary pension	43	1,661	(1,094)	610
Unemployment insurance	21	59	(60)	20
Total	129	3,966	(3,396)	699

Defined contribution pension schemes

In accordance with the regulations in the PRC, the Group participates in statutory pension schemes organised by the municipal and provincial governments for its employees (endowment insurance). During the year ended 31 December 2020, the Group's contributions to the schemes are determined by local governments and vary at a range of 12% to 16% (2019: 12% to 16%) of the staff salaries.

In addition to the above statutory pension schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance) in accordance with relevant annuity policies for corporate entities in the PRC. During the year ended 31 December 2020, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2019: 0% to 8.33%).

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

(iii) Other long-term employee benefits

	2020			
	Beginning balance	Charge for the year	Payment in the year	Ending balance
Cash settled share-based transactions	**67**	**30**	**(30)**	**67**

	2019			
	Beginning balance	Charge for the year	Payment in the year	Ending balance
Cash settled share-based transactions	49	54	(36)	67

As at 31 December 2020, the Group has offered 10 phases of H share Appreciation Rights Scheme to its senior management ("the Scheme"). The share appreciation rights of the Scheme vest after 2 years or 3 years from the grant date and are then exercisable within a period of 7 years or 8 years. Each of the share appreciation right is linked to one H-share.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised share appreciation rights at the end of 2020 (in millions)	Exercise conditions	Contract period of share appreciation rights
Share appreciation rights granted on 7 Jul 2014 (Phase VII)	0.275	3 years after the grant date	10 years
Share appreciation rights granted on 22 Jul 2015 (Phase VIII)	0.743	3 years after the grant date	10 years
Share appreciation rights granted on 24 Aug 2016 (Phase IX)	0.802	3 years after the grant date	10 years
Share appreciation rights granted on 25 Aug 2017 (Phase X)	1.050	3 years after the grant date	10 years

(2) The number and weighted average exercise prices of share appreciation rights are as follows:

	2020		2019	
	Weighted average exercise price (HKD)	Number of share appreciation rights (in million)	Weighted average exercise price (HKD)	Number of share appreciation rights (in million)
Outstanding as at the beginning of the year	**18.57**	**4.14**	19.00	5.86
Exercised during the year	**14.90**	**(1.27)**	15.02	(1.72)
Outstanding at the end of the year	**18.34**	**2.87**	18.57	4.14
Exercisable at the end of the year	**16.05**	**1.34**	13.80	1.08

The share appreciation rights outstanding at 31 December 2020 had a weighted average exercise price of HKD18.34 (2019: HKD18.57) and a weighted average remaining contractual life of 5.55 years (2019: 6.26 years).

Pursuant to the requirements set out in the Scheme, if there are any dividends distributed, capital reserve converted into shares, share split or dilution, adjustments to the exercise price will be applied.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(3) Fair value of share appreciation rights and assumptions

The fair value of services received in return for share appreciation rights granted are measured by reference to the fair value of share appreciation rights granted. The estimate of the fair value of the share appreciation rights granted is measured based on the Black-Scholes model. The contractual lives of the rights are used as an input of the model.

	2020			
	Phase VII	**Phase VIII**	**Phase IX**	**Phase X**
Fair value at measurement date (in RMB)	**29.03**	**22.81**	**22.91**	**17.05**
Share price (in HKD)	**48.5**	**48.5**	**48.5**	**48.5**
Exercise price (in HKD)	**8.94**	**16.09**	**14.66**	**25.20**
Expected volatility	**36.10%**	**36.10%**	**36.10%**	**36.10%**
Share appreciation rights life (year)	**3.50**	**4.58**	**5.67**	**6.67**
Expected dividends rate	**3.51%**	**3.51%**	**3.51%**	**3.51%**
Risk-free interest rate	**1.43%**	**1.43%**	**1.43%**	**1.43%**

	2019					
	Phase V	Phase VI	Phase VII	Phase VIII	Phase IX	Phase X
Fair value at measurement date (in RMB)	25.44	23.93	22.91	16.74	17.09	11.23
Share price (in HKD)	40.6	40.6	40.6	40.6	40.6	40.6
Exercise price (in HKD)	9.63	10.19	10.26	17.41	15.98	26.52
Expected volatility	26.68%	26.68%	26.68%	26.68%	26.68%	26.68%
Share appreciation rights life (year)	2.33	3.42	4.50	5.58	6.67	7.67
Expected dividends rate	3.24%	3.24%	3.24%	3.24%	3.24%	3.24%
Risk-free interest rate	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share appreciation rights) and adjusted for any expected changes to future volatility based on publicly available information. Expected dividend rate is based on historical dividend rates. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share appreciation rights were granted under service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share appreciation rights granted.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(4) The number of share appreciation rights granted to members of senior management:

	2020					
	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised (in thousands)
Li Hao	–	–	–	–	–	2,131
Tang Zhi Hong	–	–	–	–	–	1,903
Tian Hui Yu	225	300	300	330	1,155	75
Liu Jian Jun	–	52	158	240	450	420
Wang Liang	–	157	210	240	607	203
Xu Shi Qing	50	180	–	–	230	100
Xiong Liang Jun	–	52	135	240	427	233
Total	275	741	803	1,050	2,869	5,065

	2019							
	Phase V (in thousands)	Phase VI (in thousands)	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised (in thousands)
Li Hao	–	–	–	–	–	–	–	2,131
Tang Zhi Hong	46	92	158	210	210	240	956	947
Tian Hui Yu	–	–	225	300	300	330	1,155	75
Liu Jian Jun	–	–	53	105	158	240	556	314
Wang Liang	–	–	38	157	210	240	645	165
Xu Shi Qing	–	–	150	180	–	–	330	–
Xiong Liang Jun	–	–	–	105	157	240	502	158
Total	46	92	624	1,057	1,035	1,290	4,144	3,790

Note: In 2020, senior management had exercised 1.27 million shares of appreciation rights (2019: 1.72 million) and the weighted average exercise price is HKD14.90 (2019: HKD15.02).

(b) Post-employment benefits – defined benefit plan

The Group's subsidiary CMB WLB operates a defined benefit plan (the "plan") for the staff, which includes a defined benefit scheme and a defined benefit pension section. The contributions of the plan are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the plan. The plan provides benefits based on members' final salary. The costs are solely funded by CMB WLB.

The latest actuarial valuation of the plan was performed in accordance with IAS 19 issued by the IASB as at 31 December 2020 by Willis Towers Watson Limited, a professional actuarial firm. The present values of the defined benefit obligation and current service cost of the plan are calculated based on the projected unit credit method. At the valuation date, the plan had a funding level of 118% (2019: 106%).

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The amounts recognised in the statement of financial position as at 31 December 2020 are analysed as follows:

	2020	2019
Fair value of the plan assets	**401**	385
Present value of the funded defined benefit obligation	**(341)**	(363)
Net asset recognised in the statement of financial position	**60**	22

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the plan is expected to be paid in 2021.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2020 and 2019.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2020	2019
Current service cost	**(12)**	(11)
Net interest income	**–**	1
Net expense for the year included in retirement benefit costs	**(12)**	(10)

The actual gain on the plan assets for the year ended 31 December 2020 was RMB64 million (2019: RMB47 million).

The movements in the defined benefit obligation during the year are as follows:

	2020	2019
Present value of obligation at 1 January	**363**	326
Current service cost	**12**	11
Interest cost	**6**	6
Actual benefits paid	**(25)**	(26)
Actuarial profit or losses due to liability experience	**2**	10
Actuarial profit or losses due to financial assumption changes	**5**	29
Actuarial gain or losses due to demographic assumption changes	**–**	–
Exchange difference	**(22)**	7
Actual obligation at 31 December	**341**	363

The movements in the fair value of the plan assets during the year are as follows:

	2020	2019
Fair value of the plan assets at 1 January	**385**	357
Interest income	**6**	7
Expected return on plan assets	**58**	40
Actual benefits paid	**(25)**	(26)
Exchange difference	**(23)**	7
Fair value of the plan assets at 31 December	**401**	385

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The major categories of the plan assets are as follows:

	2020		2019	
	Amount	%	Amount	%
Equities	**259**	**64.5**	238	61.8
Bonds	**64**	**16.0**	73	19.0
Cash	**78**	**19.5**	74	19.2
Total	**401**	**100.0**	385	100.0

Deposit with the Bank included in the amount of the plan assets was RMB65 million (2019: RMB57 million).

The principal actuarial assumptions adopted in the valuation are as follows:

	2020 %	2019 %
Discount rate		
– Defined benefit scheme	**0.4**	1.6
– Defined benefit pension scheme	**0.1**	1.7
Long-term average rate of salary increase for the plan	**5.0**	6.0
Pension increase rate for the defined benefit pension plan	**–**	–

As at 31 December 2020 and 2019, there is no significant change of the amount in the liabilities of the retirement benefit plan due to the above mentioned actuarial assumptions.

40. Tax payable

	2020	2019
Corporate income tax	**13,907**	13,909
Value added tax	**3,347**	3,057
Others	**1,394**	2,103
Total	**18,648**	19,069

41. Contract liabilities

	2020	2019
Credit card points	**5,309**	5,262
Other deferred fee and commission income	**1,520**	1,226
Total	**6,829**	6,488

42. Provisions

	2020	2019
Expected credit loss provisions	**7,236**	5,116
Other	**993**	993
Total	**8,229**	6,109

The expected credit loss provisions for loan commitments and financial guarantee contracts by stages are as follows:

	2020			
	–Stage 1 (12-month ECL)	**–Stage 2 (Lifetime ECL-not credit-impaired)**	**–Stage 3 (Lifetime ECL-credit impaired)**	**Total**
Expected credit loss provisions	**5,560**	**1,073**	**603**	**7,236**

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Expected credit loss provisions	3,396	1,307	413	5,116

43. Debt securities issued

	Notes	2020	2019
Subordinated notes issued	(a)	**34,302**	34,469
Long-term debt securities issued	(b)	**146,559**	165,602
Negotiable interbank certificates of deposit		**144,816**	349,284
Certificates of deposit issued		**18,479**	26,007
Interest payable		**1,985**	2,829
Total		**346,141**	578,191

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	180 months	28 Dec 2012	5.20	RMB11,700	11,693	–	1	–	11,694
Fixed rate bond	120 months	15 Nov 2018	4.65	RMB20,000	19,993	–	2	–	19,995
Total					31,686	–	3	–	31,689

As at the end of the reporting period, subordinated note issued by CMB WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed to floating rate notes	120 months	22 Nov 2017	3.75 (for the first 5 years); T*+1.75% (from 6 year onwards, if the notes are not called by the Bank)	USD400	2,783	–	(170)	–	2,613
Total					2,783	–	(170)	–	2,613

* T represents the 5 years US Treasury rate.

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued

As at the end of reporting period, debt securities issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	22 May 2017	4.20	RMB18,000	17,991	–	9	–	(18,000)	–
Medium term note	36 months	12 Jun 2017	3M Libor+0.825	USD800	5,579	–	–	80	(5,659)	–
Fixed rate bond	36 months	14 Sep 2017	4.30	RMB12,000	11,994	–	6	–	(12,000)	–
Fixed rate bond	36 months	17 Aug 2018	3.95	RMB30,000	29,973	–	10	–	–	29,983
Medium term note (note(i))	36 months	12 Jun 2019	0.25	EUR300	2,341	–	(1)	71	–	2,411
Medium term note	36 months	19 Jun 2019	3M Libor+0.74	USD600	4,173	–	(5)	(248)	–	3,920
Fixed rate bond	36 months	5 Jul 2019	3.45	RMB30,000	29,990	–	1	–	–	29,991
Medium term note	33 months	4 Sep 2019	3M Libor+0.74	USD60	418	–	–	(26)	–	392
Fixed rate bond	36 months	24 Sep 2019	3.33	RMB20,000	19,994	–	2	–	–	19,996
Medium term note (note (ii))	36 months	25 Sep 2020	1.10	USD400	–	2,718	–	(108)	–	2,610
Medium term note (note(iii))	36 months	25 Sep 2020	0.25	USD300	–	2,039	(2)	(82)	–	1,955
Fixed rate bond	36 months	6 Nov 2020	3.48	RMB10,000	–	10,000	(2)	–	–	9,998
Total					122,453	14,757	18	(313)	(35,659)	101,256

Notes:

(i) CMB WLB holds financial bonds issued by the Bank amounted to EUR 37 million as of 31 December 2020, equivalent to RMB293 million (31 December 2019: EUR 37 million, equivalent to RMB285 million).

(ii) CMB WLB holds financial bonds issued by the Bank amounted to USD30 million as of 31 December 2020, equivalent to RMB196 million (31 December 2019: nil).

(iii) CMB WLB holds financial bonds issued by the Bank amounted to USD30 million as of 31 December 2020, equivalent to RMB196 million (31 December 2019: nil).

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

As at the end of the reporting period, debt securities issued by CMBFLC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	60 months	29 Nov 2016	3.25	USD900	6,268	–	7	(402)	–	5,873
Fixed rate bond	36 months	15 Mar 2017	4.50	RMB4,000	3,999	–	1	–	(4,000)	–
Fixed rate bond (note (i))	36 months	5 Jul 2017	4.80	RMB1,500	1,499	–	1	–	(1,500)	–
Fixed rate bond (note (ii))	36 months	20 Jul 2017	4.89	RMB2,500	2,499	–	1	–	(2,500)	–
Fixed rate bond	36 months	3 Aug 2017	4.60	RMB2,000	1,999	–	1	–	(2,000)	–
Fixed rate bond (note (iii))	36 months	14 Mar 2018	5.24	RMB4,000	3,995	–	4	–	–	3,999
Fixed rate bond (note (iv))	36 months	9 May 2018	4.80	RMB4,000	3,995	–	4	–	–	3,999
Fixed rate bond	36 months	16 Jul 2018	4.50	RMB4,000	3,994	–	4	–	–	3,998
Fixed rate bond (note (v))	36 months	14 Mar 2019	3.50	RMB1,500	1,497	–	1	–	–	1,498
Fixed rate bond (note (vi))	60 months	14 Mar 2019	4.00	RMB500	499	–	–	–	–	499
Fixed rate bond	36 months	28 May 2019	3.68	RMB3,000	2,993	–	3	–	–	2,996
Fixed rate bond (note (vii))	60 months	25 Jun 2019	3.12	USD900	6,231	–	10	(398)	–	5,843
Fixed rate bond (note (viii))	120 months	25 Jun 2019	3.69	USD100	692	–	1	(45)	–	648
Fixed rate bond	36 months	17 Jul 2019	3.60	RMB3,000	2,992	–	3	–	–	2,995
Fixed rate bond	12 months	22 Nov 2019	2.72	USD50	349	–	–	(22)	(327)	–
Fixed rate bond (note (ix))	12 months	17 Apr 2020	1.73	USD40	–	283	1	(23)	–	261
Fixed rate bond	120 months	14 Jul 2020	4.25	RMB2,000	–	1,991	1	–	–	1,992
Fixed rate bond (note (x))	60 months	12 Aug 2020	1.88	USD800	–	5,463	2	(261)	–	5,204
Fixed rate bond	120 months	12 Aug 2020	2.75	USD400	–	2,717	1	(130)	–	2,588
Fixed rate bond (note (xi))	36 months	17 Nov 2020	3.85	RMB4,000	–	3,989	–	–	–	3,989
Fixed rate bond	12 months	28 Dec 2020	1.50	USD20	–	131	–	–	–	131
Total					43,501	14,574	46	(1,281)	(10,327)	46,513

Notes:

(i) The Bank holds financial bonds issued by CMBFLC amounted to nil as of 31 December 2020 (31 December 2019: RMB300 million).

(ii) The Bank holds financial bonds issued by CMBFLC amounted to nil as of 31 December 2020 (31 December 2019: RMB200 million).

(iii) The Bank holds financial bonds issued by CMBFLC amounted to RMB260 million as of 31 December 2020 (31 December 2019: RMB260 million).

(iv) The Bank holds financial bonds issued by CMBFLC amounted to RMB140 million as of 31 December 2020 (31 December 2019: RMB140 million).

(v) The Bank holds financial bonds issued by CMBFLC amounted to nil as of 31 December 2020 (31 December 2019: RMB300 million).

(vi) The Bank holds financial bonds issued by CMBFLC amounted to nil as of 31 December 2020 (31 December 2019: RMB100 million).

(vii) The Bank holds financial bonds issued by CMBIL amounted to USD98 million as of 31 December 2020, equivalent to RMB639 million (31 December 2019: USD50 million, equivalent to RMB348 million); CMB WLB holds this financial bonds amounted to USD30 million as of 31 December 2020, equivalent to RMB196 million (31 December 2019: USD30 million, equivalent to RMB209 million).

(viii) The Bank holds financial bonds issued by CMBIL amounted to USD43 million as of 31 December 2020, equivalent to RMB282 million (31 December 2019: USD43 million, equivalent to RMB300 million).

(ix) CMB WLB holds financial bonds issued by CMBIL amounted to USD40 million as of 31 December 2020, equivalent to RMB261 million (31 December 2019: nil).

(x) CMB WLB holds financial bonds issued by CMBIL amounted to USD32 million as of 31 December 2020, equivalent to RMB209 million (31 December 2019: nil).

(xi) The Bank holds financial bonds issued by CMBFLC amounted to RMB500 million as of 31 December 2020 (31 December 2019: nil).

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

As at the end of the reporting period, long-term debt securities issued by CMBI were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	9 Jul 2018	3.72	USD300	2,090	–	–	(128)	1,962
Total					2,090	–	–	(128)	1,962

44. Other liabilities

	2020	2019
Clearing and settlement accounts	**22,557**	9,971
Salary risk allowances (note)	**31,200**	22,000
Insurance liabilities	**2,021**	1,931
Collecting on behalf of customers	**3,610**	2,046
Continuing involvement liability	**3,128**	987
Cheques and remittances returned	**127**	49
Others	**41,812**	40,194
Total	**104,455**	77,178

Note: Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances.

45. Share capital

By type of shares:

	2020 and 2019 No. of shares (in million)
Listed shares	
– A-Shares	20,629
– H-Shares	4,591
Total	25,220

All H-Shares are ordinary shares and rank pari passu with the A-Shares. There is no restriction on these shares.

	Capital	
	No. of shares (in million)	Amount
At 1 January 2020 and at 31 December 2020	**25,220**	**25,220**

46. Other equity instruments

(a) Preference Shares

	2020 and 2019	
	No. (millions of shares)	Amount
Issuance of Offshore Preference Shares in 2017 (note (i))	50	6,597
Issuance of Domestic Preference Shares in 2017 (note (ii))	275	27,468
Total	325	34,065

Notes :

(i) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares in the aggregate par value of USD1,000 million on 25 October 2017. Each Offshore Preference Share has a par value of USD20 and 50 million Offshore Preference Shares were issued in total. The initial dividend rate is 4.40% and is subsequently subject to reset per agreement, but not exceed 16.68%. Dividends on the Offshore Preference Shares shall be paid out by cash, which shall be priced and announced in RMB. Save for such dividend at the agreed dividend pay-out ratio, the holders of the above Preference Shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the Preference Shares, and such cancellation shall not be deemed a default. In the event that the Bank cancels the distribution of part or all of the dividends on the Preference Shares, the Bank will not distribute any profit to holders of Ordinary Shares during the period from the date when the shareholders' general meeting adopts relevant resolution to the restoration of full dividend payment to the holders of Preference Shares. The dividends on the preference shares are non-cumulative, that is, the Bank will not distribute the dividends that be cancelled in prior years to preference shares holders.

The Offshore Preference Shares have no maturity date. However, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, all or part of the Offshore Preference Shares may be redeemed at the discretion of the Bank, but the Bank does not have the obligation to redeem Preference Shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that the Preference Shares will be redeemed.

(ii) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Domestic Preference Shares in the aggregate par value of RMB27,500 million on 22 December 2017. Each Domestic Preference Share has a par value of RMB100 and 275 million Domestic Preference Shares were issued in total. The initial dividend rate is 4.81% and is subsequently subject to reset per agreement, but shall not exceed 16.68%. Dividends on the Domestic Preference Shares shall be paid out by cash. Save for such dividend at the agreed dividend pay-out ratio, the holders of the above Preference Shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the Preference Shares, and such cancellation shall not be deemed a default. In the event that the Bank cancels the distribution of part or all of the dividends on the Preference Shares, the Bank will not distribute any profit to holders of Ordinary Shares during the period from the date when the shareholders' general meeting adopts relevant resolution to the restoration of full dividend payment to the holders of Preference Shares. The dividends on the preference shares are non-cumulative, that is, the Bank will not distribute the dividends that be cancelled in prior years to preference shares holders.

The Domestic Preference Shares have no maturity date. However, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, all or part of the Domestic Preference Shares may be redeemed at the discretion of the Bank, but the Bank does not have the obligation to redeem Preference Shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that the Preference Shares will be redeemed.

The domestic and offshore preference shares have conditions of events triggering mandatory conversion as follows:

(1) Upon the occurrence of any additional Tier-1 Capital Instrument Trigger Event, that is, the Core Tier-1 Capital Adequacy Ratio drops to 5.125% or below, the Bank shall have the right to convert, without the approval of the holders of Preference Shares, part or all of the Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of the Preference Shares in order to restore the Core Tier- 1 Capital Adequacy Ratio of the Bank to above 5.125%. In case of partial conversion, the Preference Shares shall be converted on a pro rata basis and on identical conditions.

(2) Upon the occurrence of a Tier-2 Capital Trigger Event, the Bank shall have the right to convert, without the approval of the holders of Preference Shares, all of the Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of the Preference Shares. A Tier-2 Capital Trigger Event means the earlier of the following events: 1) the China Banking and Insurance Regulatory Commission (the "CBIRC") having concluded that without a conversion or write-off, the Bank would become non-viable, and 2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

Upon the occurrence of the above mandatory conversion events, the Bank shall report to the CBIRC for review and determination and shall fulfill the relevant information disclosure obligations of the Securities Law, the CSRC and Hong Kong's laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

46. Other equity instruments *(continued)*

(b) Perpetual Debt Capital

	01 January 2020		Increase		31 December 2020	
	No. (millions of shares)	Amount	No. (millions of shares)	Amount	No. (millions of shares)	Amount
Issuance of Perpetual Debt Capital in 2020 (note (i))	–	–	500	49,989	500	49,989
Total	–	–	500	49,989	500	49,989

Note:

(i) With the approval of the relevant Chinese regulatory authorities, the Bank issued RMB50,000 million *2020 China Merchants Bank Co., Ltd. Undated Additional Tier-1 Capital Bonds (Series 1) (the "Bonds")* in the national inter-bank bond market on July 9, 2020. The unit face value is RMB100. The coupon rate adjusted period will be every 5 years from the issuance of the Bonds. In any coupon rate adjusted period, the coupon rate of the Bonds will be made at a prescribed fixed coupon rate. The Bonds will continue to be outstanding so long as the Bank's business continues to operate.

From the fifth anniversary since the issuance of the Bonds, the Bank has the right to redeem in whole or part of the Bonds on the annual interest payment date (including the interest payment date of the fifth year since the issuance date) subject to the approval of the CBIRC and the satisfaction of the redemption preconditions. If, after the issuance, the Bonds no longer qualify as additional Tier 1 capital as a result of an unforeseeable change to relevant provisions of supervisory regulation, the Bank has right to redeem the whole but not part of the Bonds. The investors do not have the right to sell back the Bonds to the Bank during the bond term.

The claims in respect of the Bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the Bonds, and will rank in priority to all classes of shares held by the Bank's shareholders and 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 coupon rate will be reset on each Benchmark Rate Reset Date (i.e., the date of every five years from the Payment Settlement Date, which is July 9, 2020). The adjusted coupon rate will be determined based on the benchmark interest rate at adjustment date plus the fixed spread as determined at the issuance. *The Bonds* do not contain interest rate step-up mechanism or any other redemption incentives. The Bank has the right to cancel, in whole or in part, distributions on the Bonds and any such cancellation does not constitute an event of default. The Bank will fully consider the interests of bondholders when exercising this right. The Bank is free to use the cancelled bond interest for the current period to repay other due debts. Cancellation of any distributions to the Bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

47. Capital reserve

Capital reserve primarily represents share premium of the Bank and can be used to issue shares with the shareholders' approval.

	2020	2019
At 1 January and 31 December	**67,523**	67,523

48. Investment revaluation reserve

	2020	2019
Debt instruments measured at fair value through other comprehensive income: investment revaluation reserve	**4,281**	5,954
Fair value gain on equity instruments measured at fair value through other comprehensive income	**3,064**	2,609
Remeasurement of defined benefit liability	**73**	30
Equity-accounted investees share of other comprehensive income	**789**	326
Total	**8,207**	8,919

49. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedge in Note 4(5).

50. Surplus reserve

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") and is provided at 10% of the audited profit after tax of the Bank. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

	2020	2019
At 1 January	62,291	53,682
Provided for the year	8,867	8,609
At 31 December	71,158	62,291

51. Regulatory general reserve

Pursuant to relevant regulatory notices, the Bank and the Group's financial services subsidiaries are required to set aside a general reserve from profit after tax up to a certain percentage of the ending balance of gross risk-bearing assets to cover potential losses. The Bank and the Group's financial services subsidiaries have complied with the requirements as of 31 December 2020.

	2020	2019
At 1 January	90,151	78,542
Provided for the year	7,931	11,609
At 31 December	98,082	90,151

52. Profit appropriations

(a) Dividends approved/declared by shareholders

	2020	2019
Dividends in 2019, approved and to be declared RMB1.20 per shares	30,264	–
Dividends in 2018, approved and to be declared RMB0.94 per shares	–	23,707

(b) Proposed profit appropriations

	2020	2019
Statutory surplus reserve	8,867	8,609
Regulatory general reserve	7,931	11,609
Dividends		
– cash dividend: RMB1.25 per shares (2019: RMB1.20 per shares)	31,601	30,264
Total	48,399	50,482

2020 dividends profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 19 March 2021 and will be submitted to the 2020 annual general meeting for approval.

53. Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of operations outside Mainland China.

54. The Bank's statement of financial position and changes in the Bank's reserves

	2020	2019
Assets		
Cash	12,547	14,356
Precious metals	7,873	4,006
Balances with central banks	508,385	549,969
Balances with banks and other financial institutions	73,318	73,472
Placements with banks and other financial institutions	217,325	304,396
Amounts held under resale agreements	282,240	103,740
Loans and advances to customers	4,510,864	3,968,513
Financial assets at fair value through profit or loss	451,978	378,242
Derivative financial assets	46,526	23,769
Debt investments at amortised cost	1,047,040	920,575
Debt investments at fair value through other comprehensive income	449,428	416,181
Equity investments designated at fair value through other comprehensive income	6,693	5,430
Investments in subsidiaries	49,495	49,495
Interest in joint ventures	7,630	6,091
Investment properties	1,057	1,203
Property and equipment	26,300	25,565
Right-of-use assets	18,200	19,078
Intangible assets	3,961	3,752
Deferred tax assets	71,043	63,663
Other assets	74,233	28,736
Total assets	7,866,136	6,960,232
Liabilities		
Borrowing from central banks	331,622	358,728
Deposits from banks and other financial institutions	699,161	541,745
Placements from banks and other financial institutions	59,494	73,880
Financial liabilities at fair value through profit or loss	36,600	32,922
Derivative financial liabilities	49,624	22,911
Amounts sold under repurchase agreements	126,673	55,455
Deposits from customers	5,443,144	4,660,232
Salaries and welfare payable	12,194	9,581
Tax payable	17,205	17,655
Contract liabilities	6,829	6,488
Lease liabilities	13,468	13,632
Provision	8,201	6,061
Debt securities issued	291,246	527,986
Other liabilities	86,218	54,604
Total liabilities	7,181,679	6,381,880
Equity		
Share capital	25,220	25,220
Other equity instruments	84,054	34,065
Capital reserve	76,681	76,681
Investment revaluation reserve	7,951	8,676
Hedging reserve	(26)	(26)
Surplus reserve	71,158	62,291
Regulatory general reserve	94,067	85,820
Retained profits	293,523	255,155
Proposed profit appropriations	31,601	30,264
Exchange reserve	228	206
Total equity	684,457	578,352
Total equity and liabilities	7,866,136	6,960,232

54. The Bank's statement of financial position and changes in the Bank's reserves *(continued)*

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's reserves are as follows.

		Other equity instruments										
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal
At 1 January 2020	25,220	34,065	–	76,681	8,676	(26)	62,291	85,820	255,155	30,264	206	578,352
Changes in equity for the year	–	–	49,989	–	(725)	–	8,867	8,247	38,368	1,337	22	106,105
Net profit for the year	–	–	–	–	–	–	–	–	88,674	–	–	88,674
Other comprehensive (expense)/income for the year	–	–	–	–	(665)	–	–	–	–	–	22	(643)
Total comprehensive (expense)/income for the year	–	–	–	–	(665)	–	–	–	88,674	–	22	88,031
Issue of perpetual debt capital	–	–	49,989	–	–	–	–	–	–	–	–	49,989
Profit appropriations	–	–	–	–	–	–	8,867	8,247	(50,366)	1,337	–	(31,915)
Appropriations to statutory surplus reserve	–	–	–	–	–	–	8,867	–	(8,867)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	–	–	8,247	(8,247)	–	–	–
Dividends paid for the year 2019	–	–	–	–	–	–	–	–	–	(30,264)	–	(30,264)
Proposed dividends for the year 2020	–	–	–	–	–	–	–	–	(31,601)	31,601	–	–
Dividends paid for preference shares	–	–	–	–	–	–	–	–	(1,651)	–	–	(1,651)
Transfers within equity upon disposal of equity Instruments designated at FVTOCI	–	–	–	–	(60)	–	–	–	60	–	–	–
At 31 December 2020	25,220	34,065	49,989	76,681	7,951	(26)	71,158	94,067	293,523	31,601	228	684,457

54. The Bank's statement of financial position and changes in the Bank's reserves *(continued)*

		Other equity instruments									
	Share capital	Preference shares	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal
At 1 January 2019	25,220	34,065	76,681	5,540	(27)	53,682	75,818	219,622	23,707	155	514,463
Changes in equity for the year	–	–	–	3,136	1	8,609	10,002	35,533	6,557	51	63,889
Net profit for the year	–	–	–	–	–	–	–	86,085	–	–	86,085
Other comprehensive income for the year	–	–	–	3,129	1	–	–	–	–	51	3,181
Total comprehensive income for the year	–	–	–	3,129	1	–	–	86,085	–	51	89,266
Profit appropriations	–	–	–	–	–	8,609	10,002	(50,545)	6,557	–	(25,377)
Appropriations to statutory surplus reserve	–	–	–	–	–	8,609	–	(8,609)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	–	10,002	(10,002)	–	–	–
Dividends paid for the year 2018	–	–	–	–	–	–	–	–	(23,707)	–	(23,707)
Proposed dividends for the year 2019	–	–	–	–	–	–	–	(30,264)	30,264	–	–
Dividends paid for preference shares	–	–	–	–	–	–	–	(1,670)	–	–	(1,670)
Transfers within equity upon disposal of equity Instruments designated at FVTOCI	–	–	–	7	–	–	–	(7)	–	–	–
At 31 December 2019	25,220	34,065	76,681	8,676	(26)	62,291	85,820	255,155	30,264	206	578,352

55. Notes to consolidated cash flow statement

(a) Analysis of the balances of cash and cash equivalents (including assets with original maturity within 3 months):

	2020	2019
Cash and Balances with central banks	**37,496**	90,383
Balance with banks and other financial institutions	**83,688**	61,260
Placements with banks and other financial institutions	**111,706**	227,606
Amounts held under resale agreements	**282,867**	103,633
Debt securities investments	**37,033**	106,793
Total	**552,790**	589,675

55. Notes to consolidated cash flow statement *(continued)*

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were classified in the Group's consolidated cash flows statement as cash flows from financing activities.

	Negotiable interbank certificates of deposit	Certificates of deposit issued	Debt securities issued	Interest payable	Dividend payable	Other financial liabilities	Lease liabilities	Total
At 1 January 2020	349,284	26,774	209,271	2,829	26	9,325	14,379	611,888
Cash changes:								
Proceeds from the issue	213,011	22,592	33,606	–	–	14,417	–	283,626
Repayment	(413,820)	(28,992)	(45,486)	–	–	(867)	(4,644)	(493,809)
Interest/dividend paid	(10,670)	–	–	(8,820)	(32,321)	–	–	(51,811)
Non-cash changes:								
Additions of lease liabilities	–	–	–	–	–	–	3,911	3,911
Accrued interest	–	–	–	7,976	–	–	596	8,572
Dividend declared	–	–	–	–	32,321	–	–	32,321
Discount or premium amortisation	7,042	(88)	(278)	–	–	–	–	6,676
Fair value adjustments	–	43	118	–	–	262	–	423
Foreign exchange	(31)	(1,245)	(2,517)	–	–	(90)	–	(3,883)
At 31 December 2020	144,816	19,084	194,714	1,985	26	23,047	14,242	397,914

	Negotiable interbank certificates of deposit	Certificates of deposit issued	Debt securities issued	Interest payable	Dividend payable	Other financial liabilities	Lease liabilities	Total
At 1 January 2019	245,406	29,343	160,174	2,599	26	2,879	12,807	453,234
Cash changes:								
Proceeds from the issue	455,128	27,631	70,607	–	–	6,509	–	559,875
Repayment	(351,235)	(30,921)	(22,363)	–	–	(185)	(4,302)	(409,006)
Interest/dividend paid	(9,921)	–	–	(7,416)	(25,673)	–	–	(43,010)
Non-cash changes:								
Additions of lease liabilities	–	–	–	–	–	–	5,317	5,317
Accrued interest	–	–	–	7,646	–	–	557	8,203
Dividend declared	–	–	–	–	25,673	–	–	25,673
Discount or premium amortisation	9,897	70	18	–	–	–	–	9,985
Fair value adjustments	–	16	90	–	–	105	–	211
Foreign exchange	9	635	745	–	–	17	–	1,406
At 31 December 2019	349,284	26,774	209,271	2,829	26	9,325	14,379	611,888

(c) Significant non-cash transactions

There are no significant non-cash transactions during the year.

56. Operating segments

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

(1) Wholesale finance business

The financial services for corporate clients, sovereigns, and financial institutions include: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business comprised of lending and buy-back, asset custody business, financial market business, and other services.

(2) Retail finance business

The provision of financial services to retail customers includes: lending and deposit taking activities, bank card business, wealth management services, private banking and other services.

(3) Other business

Other business includes: property leasing and businesses operated by subsidiaries other than CMB WLB, and associates and joint ventures. None of these segments meets any of the quantitative thresholds so far for segments division.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking services provided to external parties. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and apportion according to the relevant factors.

As listed in Note (4), the accounting policies of the operating segments are the same as the Group's accounting policies. Operating segment income represents income generated from external customers, inter-segment transactions are offset. No customer contributed 10% or more to the Group's revenue for 2020 and 2019. Internal transactions are conducted at fair value.

56. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale financial business		Retail financial business		Other business		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
External net interest income	**16,828**	18,083	**124,362**	116,421	**43,841**	38,586	**185,031**	173,090
Internal net interest income/(expense)	**65,461**	57,697	**(21,019)**	(19,656)	**(44,442)**	(38,041)	**–**	–
Net interest income	**82,289**	75,780	**103,343**	96,765	**(601)**	545	**185,031**	173,090
Net fee and commission income	**24,017**	21,246	**51,426**	46,724	**4,043**	3,523	**79,486**	71,493
Other net income	**15,723**	14,806	**1,519**	1,227	**5,639**	7,449	**22,881**	23,482
Operating income	**122,029**	111,832	**156,288**	144,716	**9,081**	11,517	**287,398**	268,065
Operating expenses								
– Property, equipment and investment properties depreciation	**(1,722)**	(1,578)	**(2,653)**	(2,368)	**(3,340)**	(2,433)	**(7,715)**	(6,379)
– Right-of-use assets depreciation	**(1,722)**	(1,730)	**(2,484)**	(2,473)	**(210)**	(161)	**(4,416)**	(4,364)
– Others	**(34,831)**	(31,451)	**(50,677)**	(45,547)	**(5,175)**	(3,756)	**(90,683)**	(80,754)
Reportable segment profit before impairment losses	**83,754**	77,073	**100,474**	94,328	**356**	5,167	**184,584**	176,568
Expected credit losses and impairment losses on other assets	**(28,317)**	(30,642)	**(36,640)**	(27,911)	**(68)**	(2,606)	**(65,025)**	(61,159)
Share of profit of associates and joint ventures	**–**	–	**–**	–	**2,881**	1,723	**2,881**	1,723
Reportable segment profit before tax	**55,437**	46,431	**63,834**	66,417	**3,169**	4,284	**122,440**	117,132
Capital expenditure (note(i))	**2,550**	3,330	**3,738**	4,776	**10,835**	14,373	**17,123**	22,479

	Wholesale financial business		Retail financial business		Other business		Total	
	31 December 2020	31 December 2019	**31 December 2020**	31 December 2019	**31 December 2020**	31 December 2019	**31 December 2020**	31 December 2019
Reportable segment assets	**4,489,868**	3,194,551	**2,617,109**	2,307,439	**1,163,007**	1,831,826	**8,269,984**	7,333,816
Reportable segment liabilities	**4,477,918**	3,737,661	**2,075,680**	1,846,913	**995,621**	1,147,923	**7,549,219**	6,732,497
Interest in associates and joint ventures	**–**	–	**–**	–	**14,922**	10,784	**14,922**	10,784

Note:

(i) Capital expenditure represents the amount incurred for acquiring long-term segment assets.

56. Operating segments *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets, liabilities and other material items

	For the year ended 31 December	
	2020	2019
Total operating income for reportable segments	**287,398**	268,065
Total profit before income tax for reportable segments	**122,440**	117,132

	31 December 2020	31 December 2019
Assets		
Total assets for reportable segments	**8,269,984**	7,333,816
Goodwill	**9,954**	9,954
Intangible assets	**629**	708
Deferred tax assets	**72,893**	65,151
Other unallocated assets	**7,988**	7,611
Consolidated total assets	**8,361,448**	7,417,240
Liabilities		
Total liabilities for reportable segments	**7,549,219**	6,732,497
Tax payable	**18,648**	19,069
Other unallocated liabilities	**63,227**	47,967
Consolidated total liabilities	**7,631,094**	6,799,533

56. Operating segments *(continued)*

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operation in Hong Kong, New York, Singapore, London, Sydney and Luxembourg, subsidiaries operating in Hong Kong, Shenzhen, Shanghai, Beijing and Luxembourg and representative offices in Beijing, New York and Taipei.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches, subsidiaries that generate the revenue. Segment assets and non-current assets are allocated based on the geographical location of the underlying assets.

To support the Bank's operations and management's assessments, the geographical segments are defined as follows:

– "Headquarters" refers to the Group headquarters, special purpose vehicles at the branch level which are directly under the headquarters, associates and joint ventures, including the headquarters and credit card centres, etc.;

– "Yangtze River Delta region" refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;

– "Bohai Rim region" refers to branches and representative offices in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;

– "Pearl River Delta and West Coast region" refers to branches in Guangdong province and Fujian province;

– "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;

– "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;

– "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;

– "Overseas" refers to overseas branches in Hong Kong, New York, Singapore, Luxembourg, London, Sydney and representative offices in New York, and Taipei; and

– "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including CMB WLB, CMBICHC, CMBFLC, CMFM, CMBWM, CMB Europe S.A. and CIGNA & CMAM, etc.

Geographical information	Total assets		Total liabilities		Non-current assets		Profit before tax		Operating income	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2019
Headquarter	3,779,914	3,306,057	3,249,998	2,856,659	40,757	37,821	19,611	16,363	124,809	111,034
Yangtze River Delta region	1,045,508	912,227	1,026,332	893,454	6,149	6,177	24,297	24,634	35,897	33,895
Bohai Rim region	640,583	582,344	625,403	570,647	4,525	4,701	19,829	15,809	28,261	27,124
Pearl River Delta and West Coast region	896,144	795,968	871,249	778,866	4,263	4,556	21,606	21,657	32,588	31,591
Northeast region	165,961	150,072	164,666	147,584	1,790	2,006	1,854	3,271	5,785	5,998
Central region	513,998	457,081	504,742	449,597	4,132	4,344	12,227	10,282	18,040	16,995
Western region	517,523	444,856	508,471	436,575	4,150	4,692	11,611	10,880	18,321	17,361
Overseas	220,214	238,988	215,032	233,402	1,053	1,344	1,650	2,669	2,830	3,731
Subsidiaries	581,603	529,647	465,201	432,749	53,017	48,005	9,755	11,567	20,867	20,336
Total	8,361,448	7,417,240	7,631,094	6,799,533	119,836	113,646	122,440	117,132	287,398	268,065

Note: Non-current assets include interests in joint ventures, interests in associates, property and equipment, investment properties, right-of-use assets, intangible assets, goodwill, etc.

57. Assets pledged as security

The following assets have been pledged as collateral for borrowing from central banks liabilities under repurchase arrangements:

	2020	2019
Borrowing from central banks	**329,611**	356,520
Amounts sold under repurchase agreements	**142,881**	63,107
Subtotal	**472,492**	419,627
Assets pledged		
– Financial assets at fair value through profit or loss	**17,198**	10,908
– Debt investments at amortised cost	**342,142**	229,202
– Debt investments at fair value through other comprehensive income	**34,647**	21,907
– Loans and advances to customers	**120,238**	280,999
Total	**514,225**	543,016

The transactions under repurchase agreements are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

58. Contingent liabilities and commitments

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the end of the reporting period if counterparties defaulted.

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Irrevocable guarantees	212,580	508	265	213,353
Of which: Financial guarantees	95,914	399	3	96,316
Non-financing letters of guarantees	116,666	109	262	117,037
Irrevocable letters of credit	120,748	241	3	120,992
Bills of acceptances	265,213	1,671	292	267,176
Irrevocable loan commitments	206,524	3,132	45	209,701
– with an original maturity within 1 year (inclusive)	117,712	198	45	117,955
– with an original maturity over 1 year	88,812	2,934	–	91,746
Credit card commitments	1,128,152	6,468	113	1,134,733
Others	100,419	–	–	100,419
Total	2,033,636	12,020	718	2,046,374

58. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Irrevocable guarantees	200,021	1,129	277	201,427
Of which: Financial guarantees	101,477	951	3	102,431
Non-financing letters of guarantees	98,544	178	274	98,996
Irrevocable letters of credit	80,354	788	56	81,198
Bills of acceptances	269,055	3,630	77	272,762
Irrevocable loan commitments	187,404	334	284	188,022
– with an original maturity within 1 year (inclusive)	100,090	143	71	100,304
– with an original maturity over 1 year	87,314	191	213	87,718
Credit card commitments	954,555	6,130	100	960,785
Others	75,119	–	–	75,119
Total	1,766,508	12,011	794	1,779,313

As at 31 December 2020, the Group's irrevocable letters of credit includes sight letters of credit of RMB12,965 million (31 December 2019: RMB9,368 million), usance letters of credit of RMB6,516 million (31 December 2019: RMB2,068 million), other commitments of RMB101,511 million (31 December 2019: RMB69,762 million).

Irrevocable loan commitments include credit limits granted to offshore customers by overseas branches, subsidiaries and onshore and offshore syndicated loans etc.

These contingent liabilities and commitments have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances for expected credit losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB3,606,998 million at 31 December 2020 (31 December 2019: RMB2,829,535 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective lending agreements. The Group will not assume any risks on the unused credit limits for these loan customers. As a result, such balances are not included in the above contingent liabilities and commitments.

	2020	2019
Credit risk weighted amounts of contingent liabilities and commitments	**470,782**	444,075

The Group calculated the credit risk weighted amount of its contingent liabilities and commitment in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBIRC. The amount within the scope approved by the CBIRC in April 2014 is calculated using the internal rating-based approach, and the standardised approach is used to calculate those not eligible to the internal rating-based approach.

58. Contingent liabilities and commitments *(continued)*

(b) Capital commitments

Authorised capital commitments were as follows:

	2020	2019
– Contracted for	**12,851**	16,947
– Authorised but not contracted for	**294**	320
Total	**13,145**	17,267

(c) Outstanding litigations

At 31 December 2020, the Group was a defendant in certain outstanding litigations with gross claims of RMB573 million (2019: RMB778 million) arising from its banking activities. The Group considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made in the consolidated financial statements.

(d) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to make advances to bond holders if the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules issued by the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	2020	2019
Redemption obligations	**27,095**	27,363

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

59. Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances through the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Entrusted lending are not assets of the Group and are not recognised in the consolidated statement of financial position. Income received and receivable for providing these services are recognised in the consolidated statement of profit or loss as fee and commission income.

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	2020	2019
Entrusted loans	**264,107**	320,404
Entrusted funds	**(264,107)**	(320,404)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers by the Bank and CMBWM. The funds obtained from wealth management services are invested in investment products, including bonds, funds, and entrusted loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of custody, sales and management services.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. The funds received from customer for wealth management business that yet to be invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	2020	2019
Funds received from customers under wealth management services	**2,386,085**	2,090,619

Note: Funds received from customers under wealth management services are the funds received from customers under unconsolidated non-principal-guaranteed wealth management services.

60. Risk management

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the Board of Directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate financial business, the Group formulates credit policy guideline, and enhances credit acceptance and exit policies for corporate and institutional clients, and implements limit control measures to improve the quality of credit exposure.

With respect to the credit risk management of retail financial business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or credit risk offset. Collateral structures and legal covenants are reviewed regularly to ensure that they can still cover the given risks and be consistent with market practices.

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss).

The risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated the quota limit management policy to monitor and analyse the loan portfolio.

Analysis of loans and advances by industry and loan portfolio are stated in Note 22.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Internal credit risk rating

The Group classifies credit risk based on probability of default. The Group classifies credit risk into 25 grades. The internal credit risk rating is based on the predicted default risk. Internal credit risk ratings are based on qualitative and quantitative factors. For customers of wholesale business include net profit growth rate, sales growth rate, industry, etc. For customers of retail business include maturity, ageing, mortgage rate, etc.

(ii) Significant increase in credit risk

As describe in Note 4, the Group recognises lifetime ECL if there are significant increases in credit risk.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument and other items as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers an actual or expected significant deterioration in the financial instrument's internal credit risk rating (Note 60(a)(i)), as well as internal warning signal, the result of 5-tier classification and overdue information. The Group regularly reviews whether the evaluation criteria are applicable to the current situation.

For wholesale business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special mention; more than 30 days (inclusive) overdue; the internal credit risk rating of the customer has met the standard of downgrading; the early warning signal of the customer has reached a certain level; or the customer has other significant risk signals identified by the Group etc.

For retail business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special mention; more than 30 days (inclusive) overdue; or the customer has other significant risk signals identified by the Group etc.

For credit card business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special mention; more than 30 days (inclusive) overdue; the customer has early credit risk warning signals; or the customer has other significant risk signals identified by the Group etc.

The Group has provided deferred interest repayment or other arrangements for some debtors affected by COVID-19. But such arrangements would not be deemed to trigger the criteria of significant increase in the debtor's credit risk automatically. The Group assessed whether such debtors' credit risk has increased significantly based on the comprehensive analysis.

A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment.

The Group considers that a debt instrument has been credit impaired when its 5-tier loan classification is substandard, doubtful or loss or is more than 90 days overdue.

(iii) Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD): is an estimate of the likelihood of default over 12 months or lifetime horizon;
- loss given default (LGD): is the proportion of the loss arising on default to the exposure at default;
- exposure at default (EAD): is the risk exposure on a debt instrument.

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect forward-looking information.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(iv) Incorporation of forward-looking information

The Group divides financial assets into different asset groups based on their different risk characteristics. According to the risk characteristics of the asset group, the Group collects external data released by external authoritative institutions and internal behavior data without undue cost or effort, such as industrial value added, balance of various loans of financial institutions, total social consumption, gross domestic product and internal overdue data, etc. Based on statistical analyzes and expert judgments, the Group determines the relationship between above-mentioned economic indicators and risk performance, the forecast of macroeconomic indicators, and the weighting of multiple forward-looking scenarios.

Taking industrial value added and balance of various loan of financial institutions as examples, the Group refers to the forecasts issued by external authoritative institutions as the forecasts of baseline scenario, and refers to historical actual data as the forecast of optimistic and pessimistic scenarios. Details are as follows:

Indicators	Forecasts of baseline scenario used in ECL model
industrial value added (year on year)	5.40%
Balance of various loans of financial institutions (year on year)	13.10%

Combined with expert judgment, the Group set the weighting of multiple scenarios based on the principle of taking the baseline scenario as the main and the rest scenarios as a supplement. The weight of the baseline scenario of the Group as at December 31, 2020 is higher than the sum of the weights of other scenarios. According to the sensitivity test results of the Group, when the weight of the optimistic scenario increases by 10% and the weight of the baseline scenario decreases by 10%, the ECL amount will decrease by approximately 1% compared to the current result. When the weight of the pessimistic scenario increases by 10% and the weight of the benchmark scenario decreases by 10%, the ECL amount will increases by approximately 2.5% compared to the current result.

The Group periodically forecasts macroeconomic indicators, and calculates the ECL based on a weighted 12-month expected credit loss (stage 1) or a weighted lifetime expected credit loss (stage 2 and stage 3).

Through timely update of external data and introduction of internal risk indicators and other model optimization measures, the Group's expected credit loss model as at 31 December 2020 has fully reflected the impact of the COVID-19 on the macroeconomic environment.

(v) Groupings based on shared risk characteristics

The Group divides the primary business into wholesale business, retail business and credit card business. The model is grouped based on shared risk characteristics, and the primary grouping reference indicators include scale, business type and collateral type.

(vi) Maximum exposure

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is the carrying amount of the relevant financial assets (including derivatives) as disclosed in the consolidated statement of financial position and the irrevocable contract amount of the off balance sheet items disclosed in Note 58(a). At 31 December 2020, the amount of the Group's maximum credit risk exposure is RMB10,192,927 million (2019: RMB8,997,378 million).

(vii) Renegotiated loans and advances to customers

The carrying amount of loans and advances that were impaired and the terms been renegotiated was RMB24,878 million as at 31 December 2020 (31 December 2019: RMB25,022 million).

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(viii) Credit quality of debt investments

At the end of the reporting period, the analysis of the credit quality of debt investments by designated external credit assessment institution, Standard & Poor's, is as follows:

	2020	2019
Impaired gross amount of debt investments	**689**	856
Impairment allowances	**(673)**	(835)
Subtotal	**16**	21
Neither overdue nor impaired		
AAA	**786,800**	627,660
AA- to AA+	**237,947**	49,983
A- to A+	**388,554**	557,357
Lower than A-	**78,267**	20,039
Unrated	**107,279**	118,117
Impairment allowances	**(7,233)**	(3,700)
Subtotal	**1,591,614**	1,369,456
Total	**1,591,630**	1,369,477

Note: Bonds issued by the governments, central banks and policy banks held by the Group amounted to RMB1,290,843 million (2019: RMB1,099,430 million) are included.

(ix) Collateral

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	2020	2019
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	**7,358**	8,495

(x) Movements of loans and advances and debt investments measured at amortised cost

Loans and advances measured at amortised cost:

	2020			
	–Stage 1 (12-month ECL)	**–Stage 2 (Lifetime ECL-not credit-impaired)**	**–Stage 3 (Lifetime ECL-credit impaired)**	**Total**
Balance as at the beginning of the year	**4,088,065**	**80,141**	**52,565**	**4,220,771**
Net changes for the year	**471,854**	**(8,929)**	**7,178**	**470,103**
Transfer to				
– Stage 1	**10,882**	**(10,782)**	**(100)**	**–**
– Stage 2	**(31,708)**	**32,735**	**(1,027)**	**–**
– Stage 3	**(21,854)**	**(16,879)**	**38,733**	**–**
Write-offs	**–**	**–**	**(43,734)**	**(43,734)**
Balance as at the end of the year	**4,517,239**	**76,286**	**53,615**	**4,647,140**

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(x) Movements of loans and advances and debt investments measured at amortised cost *(continued)*

Loans and advances measured at amortised cost: *(continued)*

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	3,610,711	90,942	53,611	3,755,264
Net changes for the year	505,432	(8,476)	752	497,708
Transfer to				
– Stage 1	26,138	(26,034)	(104)	–
– Stage 2	(39,048)	40,213	(1,165)	–
– Stage 3	(15,168)	(16,504)	31,672	–
Write-offs	–	–	(32,201)	(32,201)
Balance as at the end of the year	4,088,065	80,141	52,565	4,220,771

Debt investments at amortised cost:

	2020			
	–Stage 1 (12-month ECL)	**–Stage 2 (Lifetime ECL-not credit-impaired)**	**–Stage 3 (Lifetime ECL-credit impaired)**	**Total**
Balance as at the beginning of the year	**916,206**	**580**	**4,681**	**921,467**
Net changes for the year	**129,902**	**(29)**	**10,869**	**140,742**
Transfer to				
– Stage 1	**–**	**–**	**–**	**–**
– Stage 2	**(420)**	**420**	**–**	**–**
– Stage 3	**(862)**	**–**	**862**	**–**
Write-offs	**–**	**–**	**(1,822)**	**(1,822)**
Balance as at the end of the year	**1,044,826**	**971**	**14,590**	**1,060,387**

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	906,028	1,037	4,283	911,348
Net changes for the year	10,293	(456)	282	10,119
Transfer to				
– Stage 1	3	(3)	–	–
– Stage 2	(9)	9	–	–
– Stage 3	(109)	(7)	116	–
Balance as at the end of the year	916,206	580	4,681	921,467

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(xi) Credit quality of financial instruments

The staging of credit risk of loans and advances to customers and debt investments at amortised cost are disclosed in note 22 and note 23(b) respectively, the staging of credit risk of other financial instruments are as follows:

	31 December 2020							
	Balance				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total
Cash and Balances with central banks	538,206	–	–	538,206	–	–	–	–
Balances with banks and other financial institutions	103,437	–	11	103,448	(266)	–	(11)	(277)
Placements with banks and other financial institutions	225,411	1,105	–	226,516	(345)	(31)	–	(376)
Amounts held under resale agreements	286,739	–	140	286,879	(603)	–	(140)	(743)
Debt investments at fair value through other comprehensive income	509,767	14	526	510,307	(2,915)	–	(1,099)	(4,014)

	31 December 2019							
	Balance				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total
Cash and Balances with central banks	567,613	–	–	567,613	–	–	–	–
Balances with banks and other financial institutions	106,295	–	11	106,306	(361)	–	(11)	(372)
Placements with banks and other financial institutions	306,656	–	–	306,656	(338)	–	–	(338)
Amounts held under resale agreements	109,153	–	200	109,353	(196)	–	(200)	(396)
Debt investments at fair value through other comprehensive income	472,112	48	426	472,586	(1,667)	(5)	(928)	(2,600)

Note: The balance of the financial instrument disclosed above does not include interest receivable, and most of the corresponding interest receivable is stage 1.

60. Risk management *(continued)*

(b) Market risk

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate and which may result in loss to the Group, because of changes in foreign exchange rate, interest rate, commodity price, stock price and other market factors. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments under the trading book are held for trading purposes or for the purposes of hedging the risks arising from the trading book position, and these financial instruments are traded in active market. The financial instruments under the banking book are assets and liabilities held by the Group for stable and determinable return, or for the purposes of hedging the risks arising from the banking book position. The financial instruments under the banking book include both the Group's on-balance sheet and off-balance sheet exposure, and have relative stable market value.

(i) Foreign exchange risk

Foreign exchange risk arises from the holding of foreign currency assets, liabilities and equity items, and the foreign currency and foreign currency derivative positions which may expose the Group to potential losses in the event of unfavourable foreign exchange rate movement. The financial assets and liabilities of the Group are denominated in RMB, and the other currencies are mainly USD and HKD. The Group has established its foreign exchange risk management and governance framework based on segregation of duty principle, which segregates the responsibilities of the establishment, execution and supervision of foreign exchange risk. This framework specified the roles, responsibilities and reporting lines of the board of directors, the board of supervisors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group takes a prudent strategy in the management of foreign exchange risk, and would not voluntarily take foreign exchange risk, which suits the current development of the Group. The current foreign exchange risk management policies and procedures of the Group fulfil the regulatory requirements and the requirements of the Group in the management of foreign exchange risk.

(1) Trading book

The Group has established a market risk structure and system of the trading book, which including exchange rate risk, to quantify the exchange rate risk of the trading book for unified management. The structure, process and method of exchange rate risk of trading book are consistent with the interest rate risk of trading book.

For management and risk measurement purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including interest rate, foreign exchange rate, and commodity risk factors), exchange rate scenario stress test loss index, exchange rate sensitivity index, cumulative loss index, the management method includes conducting business entitlement, setting quota limits, daily monitoring and continuous reporting, etc.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book

The Group's foreign exchange risk under the banking book is overall managed by the Head Office. The Asset and Liability Management Department, as the treasurer of the Bank is in charge of the banking book foreign exchange risk management. The audit department is responsible for auditing. The treasurer is responsible to manage the foreign exchange risk under the banking book with a prudent approach and compliance with the regulatory requirements, and manage the foreign exchange risk through approaches such as management of transaction limits and adjustment of plans.

The banking book foreign exchange risk of the Group arises from the mismatch of the non-RMB assets and liabilities. The Group stringently monitors its foreign exchange risk exposures to manage its foreign exchange risk within acceptable limits.

The Group has adopted foreign exchange exposure analysis, scenario simulation analysis and stress testing for the measurement and analysis of foreign exchange risk. The Group regularly measures and analyses the foreign exchange risk exposure fluctuations, monitors and reports foreign exchange risk on a monthly basis under the limit framework, and adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to avoid the banking book foreign exchange risk.

The Group continued to strengthen bank account exchange rate risk monitoring and authorization management of quota limit to ensure that risks are controlled within a reasonable range.

Assets and liabilities by original currency are shown as follows:

	2020						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and Balances with central banks	482,885	31,302	21,446	2,573	538,206	4,786	25,419
Amounts due from banks and other financial institutions	430,766	142,362	26,582	15,737	615,447	21,769	31,507
Loans and advances to customers	4,424,048	193,624	134,443	42,814	4,794,929	29,606	159,350
Investments (including derivatives)	1,955,095	98,394	27,110	14,111	2,094,710	15,045	32,132
Other assets	211,549	89,613	13,099	3,895	318,156	13,701	15,525
Total	7,504,343	555,295	222,680	79,130	8,361,448	84,907	263,933
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,222,006	90,234	13,122	10,011	1,335,373	13,798	15,553
Deposits from customers	5,079,939	354,012	158,228	36,157	5,628,336	54,132	187,541
Financial liabilities at fair value through profit or loss (including derivatives)	80,802	26,958	2,432	220	110,412	4,122	2,883
Debt securities issued	291,536	48,293	902	3,425	344,156	7,384	1,069
Other liabilities	185,522	15,592	8,523	3,180	212,817	2,384	10,102
Total	6,859,805	535,089	183,207	52,993	7,631,094	81,820	217,148
Net position	644,538	20,206	39,473	26,137	730,354	3,087	46,785
Net off-balance sheet position:							
Credit commitments (note)	1,917,050	89,591	21,901	17,832	2,046,374	13,699	25,958
Derivatives:							
– forward purchased	524,948	499,708	19,346	13,595	1,057,597	76,410	22,930
– forward sold	(449,079)	(425,752)	(13,061)	(26,723)	(914,615)	(65,102)	(15,481)
– net currency option position	(46,676)	20,570	18	45,821	19,733	3,145	21
Total	29,193	94,526	6,303	32,693	162,715	14,453	7,470

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book (continued)

Assets and liabilities by original currency are shown as follows: *(continued)*

	2019						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and Balances with central banks	510,981	48,658	4,633	3,341	567,613	6,985	5,178
Amounts due from banks and other financial institutions	377,581	115,486	16,115	12,027	521,209	16,578	18,013
Loans and advances to customers	3,887,465	204,764	135,626	40,074	4,267,929	29,394	151,605
Investments (including derivatives)	1,665,629	86,169	43,247	13,585	1,808,630	12,369	48,343
Other assets	180,113	54,855	14,870	2,021	251,859	7,876	16,621
Total	6,621,769	509,932	214,491	71,048	7,417,240	73,202	239,760
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,010,944	105,451	7,928	14,391	1,138,714	15,137	8,861
Deposits from customers	4,360,070	288,454	163,251	32,647	4,844,422	41,408	182,485
Financial liabilities at fair value through profit or loss (including derivatives)	40,989	24,369	1,247	29	66,634	3,497	1,394
Debt securities issued	518,422	47,056	4,285	5,599	575,362	6,755	4,790
Other liabilities	146,101	8,210	18,802	1,288	174,401	1,179	21,016
Total	6,076,526	473,540	195,513	53,954	6,799,533	67,976	218,546
Net position	545,243	36,392	18,978	17,094	617,707	5,226	21,214
Net off-balance sheet position:							
Credit commitments (note)	1,648,248	86,415	28,351	16,299	1,779,313	12,405	31,692
Derivatives:							
– forward purchased	435,138	443,111	47,517	12,180	937,946	63,609	53,116
– forward sold	(399,138)	(350,229)	(3,647)	(13,838)	(766,852)	(50,275)	(4,077)
– net currency option position	(15,493)	15,472	(255)	1,861	1,585	2,221	(285)
Total	20,507	108,354	43,615	203	172,679	15,555	48,754

Note: Credit commitments generally expire before they are drawn, therefore the above net position does not represent the future cash outflows.

Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book (continued)

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net foreign exchange gains and losses and equity. The following table sets forth the results of the Group's foreign exchange risk sensitivity analysis on the assets and liabilities as at 31 December 2020and 31 December 2019.

	2020		2019	
	Change in foreign currency exchange rate		Change in foreign currency exchange rate	
	Down1%	Up1%	Down1%	Up1%
(Decrease)/increase in annualised net profit	(232)	232	(145)	145
(Decrease)/increase in annualised equity	(232)	232	(145)	145

Actual changes in the Group's net profit and equity resulting from increases or decreases in foreign exchange rates may be different from the results of this sensitivity analysis.

(ii) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss to the income and market value of financial instruments and positions held by the Group.

(1) Trading book

According to the basic principles of risk management, the group has built and continuously improved the market risk management system, and established the management process of market risk identification, measurement, monitoring, control and reporting, covering the interest rate, exchange rate, commodity and other risks involved in the trading book business. Under the market risk preference formulated by the board of directors, the group manage the trading book, clearly identifies, accurately measure and effectively manage the trading book market risk, to ensure that the trading book risk exposure is within an acceptable range and achieve a reasonable balance of risk and return. The group constantly improve the risk-adjusted return level to achieve the maximum shareholder value.

The trading book market risk governance organization structure defines the responsibilities, division of labor and reporting routes of the board of directors, the board of directors risk and capital management committee, senior management and relevant departments of the bank, to achieve management objectives. The market risk management department is the group's trading book market risk department, which is responsible for risk policy formulation and management.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(1) Trading book (continued)

According to the business and market risk management organization structure, the group establishes the trading book market risk quota management system. Formulated by the board of directors, the quantitative index is the limitation of highest level risk, which is transmitted from top to bottom and level by level. Within the scope of their authorization, management departments at all levels allocate and set quotas according to risk characteristics, product types and trading strategies, etc. The business department shall carry out the business according to the authorization and quota requirements, and the supervisory and administrative departments at all levels shall continuously monitor and report according to the quota management regulations.

The trading book market risk management adopts the scale index, loss limit index, sensitivity index, risk value index, pressure test index and other risk measurement indexes as the quota index, and sets the limit value by comprehensively considering the risk preference, risk tolerance, business operation strategy, risk return, management conditions and other factors, considering such factors as risk preference, risk tolerance, business operation strategy, risk return and management conditions and other factors.

The group uses valuation, sensitivity analysis, value-at-risk analysis, pressure test and other measurement methods to identify and quantify risk factors in the interest rate market. The group applies the market risk measurement model in daily risk management and takes market risk measurement as the basis of business planning, resource allocation, financial market business operation and risk management.

(2) Banking book

The Group has established the governance and management framework according to the interest rate risk management policy for the banking book, which specified the roles, responsibilities and reporting lines of the Board of Directors, senior management, designated committees and relevant departments to ensure the effectiveness of interest rate risk management. Interest risk of the banking book of the Group is centrally managed by the Asset and Liability Management Department. The audit department is responsible for auditing.

The Group has mainly adopted scenario simulation analysis, re-pricing exposure analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Stress test is a form of scenario simulation used to assess the changes in NII and EVE indicators when there is an extreme fluctuation in interest rates. The Group conducts stress test on interest rate risk of banking book on a monthly basis. The results of stress test for 2020 showed that the interest rate risk of banking book of the Company was generally stable with various indicators staying within the set limits.

The preference of the Group in respect of the interest rate risk in the banking book is neutrally prudent. Based on the risk measurement and monitoring results, the Group will propose the corresponding risk management policy at the regular meetings of the assets and liabilities management committee and through the reporting mechanism, and the Assets and Liabilities Management Department is responsible for its implementation. The major measures for risk management include the adjustment in business volume, duration structure and interest rate structure of on-balance sheet asset and liability business and the utilisation of off-balance sheet derivative tools to offset risk exposure.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book (continued)

The Group measures and monitors interest rate risk of banking book through the asset and liability management system. Major models and parameter assumptions used in the course of measurement shall be verified independently by the Risk Management Department before official use and shall be reviewed and verified regularly upon official use.

Major developed economies are actively promoting benchmark interest rate reforms, mainly including the use of risk-free benchmark interest rates (RFRs) generated by real transactions to completely replace interbank quoted interest rates (IBOR). The Group is paying close attention to the reform of the regulatory policy to the new benchmark interest rate and the developments of its peers, actively carrying out preparations, and the overall progress is in line with expectations.

The following table indicates the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period.

	2020					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and Balances with central banks	538,206	525,118	–	–	–	13,088
Amounts due from banks and other financial institutions	615,447	524,010	87,213	3,840	384	–
Loans and advances to customers (note (i))	4,794,929	1,861,076	2,496,358	365,524	71,971	–
Investments (including derivatives)	2,094,710	351,146	369,495	781,707	524,737	67,625
Other assets (note (ii))	318,156	–	–	–	–	318,156
Total assets	8,361,448	3,261,350	2,953,066	1,151,071	597,092	398,869
Liabilities						
Amounts due to banks and other financial institutions	1,335,373	952,312	351,961	14,152	3,619	13,329
Deposits from customers	5,628,336	4,387,216	599,077	638,419	292	3,332
Financial liabilities at fair value through profit or loss (including derivatives)	110,412	460	6,336	8,367	130	95,119
Lease liabilities	14,242	1,015	2,805	8,577	1,845	–
Debt securities issued	344,156	110,389	105,553	120,655	7,559	–
Other liabilities (note (ii))	198,575	763	15	–	4	197,793
Total liabilities	7,631,094	5,452,155	1,065,747	790,170	13,449	309,573
Asset-liability gap	730,354	(2,190,805)	1,887,319	360,901	583,643	89,296

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book (continued)

	2019					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and Balances with central banks	567,613	552,307	–	–	–	15,306
Amounts due from banks and other financial institutions	521,209	454,186	57,023	10,000	–	–
Loans and advances to customers (note (i))	4,267,929	1,787,157	2,207,931	215,672	57,169	–
Investments (including derivatives)	1,808,630	273,258	348,706	742,595	403,762	40,309
Other assets (note (ii))	251,859	–	–	–	–	251,859
Total assets	7,417,240	3,066,908	2,613,660	968,267	460,931	307,474
Liabilities						
Amounts due to banks and other financial institutions	1,138,714	828,647	297,855	3,936	1,507	6,769
Deposits from customers	4,844,422	3,642,086	559,236	630,193	1,248	11,659
Financial liabilities at fair value through profit or loss (including derivatives)	66,634	415	201	10,093	–	55,925
Lease liabilities	14,379	1,003	2,729	8,436	2,211	–
Debt securities issued	575,362	117,570	302,061	120,869	34,862	–
Other liabilities (note (ii))	160,022	1,125	–	–	–	158,897
Total liabilities	6,799,533	4,590,846	1,162,082	773,527	39,828	233,250
Asset-liability gap	617,707	(1,523,938)	1,451,578	194,740	421,103	74,224

Notes:

(i) For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2020 and 31 December 2019, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.

(ii) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 31 December 2020 and 31 December 2019.

	2020		2019	
	Change in interest rates (in basis points)		Change in interest rates (in basis points)	
	25	**(25)**	25	(25)
(Decrease)/increase in annualised net interest income	**(3,266)**	**3,266**	(2,243)	2,243
(Decrease)/increase in equity	**(3,671)**	**3,700**	(3,701)	4,067

Actual changes in the Group's net interest income and equity resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

60. Risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group is not able to obtain sufficient funds at a reasonable cost and in a timely manner to deal with the appreciation of asset growth, to meet the maturity obligations, or to perform other payment obligations.

In line with its liquidity risk management policies, the Group sets out and implements the principle of supervisory duty segregation. It also puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, the board of supervisors, senior management, designated committees and relevant departments to ensure the effectiveness of the liquidity risk management. The Board of Directors shall accept the ultimate responsibility for liquidity risk management, ensure the Company can effectively identify, measure, monitor and control liquidity risk and are responsible for determining liquidity risk level which the Group can withstand. The Risk and Capital Management Committee under the Board of Directors shall discharge responsibilities in liquidity risk management on behalf of the Board of Directors. The board of supervisors shall be responsible for the supervision and evaluation of the performance of the board of directors and senior management in the liquidity risk management and report to the general meeting of shareholders. The senior management (being the Executive Office of President of the Head Office) shall be responsible for the concrete management work relating to liquidity risk and developing a timely understanding of changes in liquidity risks, and shall report the same to the Board of Director. Assets and Liabilities Committee (ALCO) shall, under the authority of the senior management, exercise the corresponding liquidity risk management functions. The Assets and Liabilities Management Department of the Head Office is a day-to-day working body of ALCO, and shall be responsible for various concrete management work including formulating policies and procedures relating to liquidity risk management and conducting qualitative and quantitative analysis of liquidity risk. The Audit Department of the Head Office shall perform duties in respect of audit work of liquidity risk management, and conduct comprehensive audit on the Group's liquidity risk management.

The Group is prudent in managing the risk, which better suits its current development stage. Basically, the Group's existing liquidity risk management policies and systems meet regulatory requirements and its own management needs.

The Group's liquidity risk management is coordinated by Head Office with branches, subsidiaries acting in concert. The Asset and Liability Management Department acts as the treasurer of the Group is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis under regulatory requirement, and conducting centralised liquidity management through quota management, budget control, initiative debt management as well as internal fund transfer pricing.

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as duration structures and contingencies. It monitors the limit indicators closely at fixed intervals. Specifically, the Group adopts information outsourced from Wind, Reuters and other systems as its external liquidity indicators, and uses liquidity risk management system to measure its internal liquidity indicators and cash flow statements.

The Group regularly conducts stress testing to assess its liquidity demand under extreme circumstances. Except for the annual stress testing requested by the regulatory authorities, the Group conducts monthly stress testing on the liquidity risk of domestic and foreign currencies. The Group sets up liquidity contingency plans and conducts liquidity contingency drills to strengthen the capability to liquidity crises.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by residual maturity is as follows:

	2020								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Overdue	Total
Cash and Balances with central banks (note (i))	37,496	–	–	–	–	–	500,710	–	538,206
Amounts due from banks and other financial institutions	91,085	369,355	62,201	88,213	4,169	384	–	40	615,447
Loans and advances to customers	–	488,169	311,334	1,201,347	1,298,866	1,469,890	12,178	13,145	4,794,929
Investments (note (ii))									
– Financial assets at fair value through profit or loss (including derivatives)	5,409	173,666	63,803	203,872	77,242	18,432	571	–	542,995
– Debt investments at amortised cost	–	2,270	31,937	110,511	467,217	420,686	–	1,648	1,034,269
– Debt investments at fair value through other comprehensive income	–	7,103	39,717	68,911	297,742	96,590	–	244	510,307
– Equity investments designated at fair value through other comprehensive income	–	–	–	–	–	–	7,139	–	7,139
Other assets (note (iv))	70,325	6,035	9,720	7,170	25,806	5,824	190,006	3,270	318,156
Total assets	204,315	1,046,598	518,712	1,680,024	2,171,042	2,011,806	710,604	18,347	8,361,448
Amounts due to banks and other financial Institutions	542,955	251,299	171,884	351,464	14,152	3,619	–	–	1,335,373
Deposits from customers (note (iii))	3,704,751	326,452	354,084	600,093	642,047	909	–	–	5,628,336
Financial liabilities at fair value through profit or loss (including derivatives)	14,264	8,777	10,745	32,994	20,374	23,258	–	–	110,412
Lease liabilities	–	527	488	2,805	8,577	1,845	–	–	14,242
Debt securities issued	–	61,167	45,304	105,552	124,574	7,559	–	–	344,156
Other liabilities (note (iv))	99,351	48,613	15,632	25,081	8,895	632	371	–	198,575
Total liabilities	4,361,321	696,835	598,137	1,117,989	818,619	37,822	371	–	7,631,094
(Short)/long position	(4,157,006)	349,763	(79,425)	562,035	1,352,423	1,973,984	710,233	18,347	730,354

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2019								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Overdue	Total
Cash and Balances with central banks (note (i))	90,384	–	–	–	–	–	477,229	–	567,613
Amounts due from banks and other financial institutions	75,300	218,574	158,030	58,606	10,518	181	–	–	521,209
Loans and advances to customers	–	410,349	355,891	1,217,503	1,119,454	1,149,038	–	15,694	4,267,929
Investments (note (ii))									
– Financial assets at fair value through profit or loss (including derivatives)	4,734	99,890	58,515	165,452	76,875	15,486	1,528	15	422,495
– Debt investments at amortised cost	–	9,041	16,218	104,421	469,749	307,331	–	712	907,472
– Debt investments at fair value through other comprehensive income	1,863	10,046	20,669	113,062	243,113	83,407	–	426	472,586
– Equity investments designated at fair value through other comprehensive income	–	–	–	–	–	–	6,077	–	6,077
Other assets (note (iv))	26,906	8,426	7,480	19,954	13,929	1,627	169,626	3,911	251,859
Total assets	199,187	756,326	616,803	1,678,998	1,933,638	1,557,070	654,460	20,758	7,417,240
Amounts due to banks and other financial Institutions	440,699	237,753	133,511	303,651	16,765	6,335	–	–	1,138,714
Deposits from customers (note (iii))	2,863,156	360,013	426,827	561,032	632,146	1,248	–	–	4,844,422
Financial liabilities at fair value through profit or loss (including derivatives)	9,391	13,029	7,754	6,806	23,558	6,096	–	–	66,634
Lease liabilities	–	527	476	2,729	8,436	2,211	–	–	14,379
Debt securities issued	–	12,008	105,563	302,062	120,867	34,862	–	–	575,362
Other liabilities (note (iv))	91,862	31,439	10,100	16,126	6,748	255	3,492	–	160,022
Total liabilities	3,405,108	654,769	684,231	1,192,406	808,520	51,007	3,492	–	6,799,533
(Short)/long position	(3,205,921)	101,557	(67,428)	486,592	1,125,118	1,506,063	650,968	20,758	617,707

Notes:

(i) For Balances with central banks, the amount with an indefinite maturity represents statutory deposit reserve and fiscal balances maintained with the PBOC.

(ii) The residual maturities of financial assets at fair value through profit or loss included in investments do not represent the Group's intention to hold them to maturity.

(iii) The deposits from customers that are repayable on demand include matured time deposits which are pending for customers' instructions.

(iv) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following table provides an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments and lease liabilities may vary significantly from this analysis.

	2020									
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Overdue
Non-derivative financial assets										
Cash and Balances with central banks	538,206	538,206	37,496	–	–	–	–	–	500,710	–
Amounts due from banks and other financial institutions	615,447	617,381	98,708	369,529	55,856	88,847	4,017	384	–	40
Loans and advances to customers	4,794,702	6,066,759	–	506,096	350,584	1,372,740	1,700,755	2,109,999	12,178	14,407
Investments										
– Financial assets at fair value through profit or loss	495,723	502,637	5,196	170,739	56,381	183,702	69,024	17,002	593	–
– Debt investments at amortised cost	1,034,269	1,350,789	–	50,876	40,743	185,488	603,526	468,369	139	1,648
– Debt investments at fair value through other comprehensive income	510,307	652,753	–	45,040	58,190	95,560	358,544	94,552	623	244
– Equity investments designated at fair value through other comprehensive income	7,139	7,139	–	–	–	–	–	–	7,139	–
Other assets	126,744	125,441	70,325	6,026	9,676	7,015	18,025	284	11,118	2,972
Total	8,122,537	9,861,105	211,725	1,148,306	571,430	1,933,352	2,753,891	2,690,590	532,500	19,311
Non-derivative financial liabilities										
Amounts due to banks and other financial institutions	1,335,373	1,346,594	543,102	252,465	174,326	357,759	15,160	3,782	–	–
Deposits from customers	5,628,336	5,696,986	3,704,881	316,664	350,989	617,139	706,355	958	–	–
Financial liabilities at fair value through profit or loss	60,351	61,043	14,219	6,308	1,098	7,413	8,828	23,177	–	–
Lease liabilities	14,242	15,705	–	524	484	2,836	9,586	2,275	–	–
Debt securities issued	344,156	366,059	–	61,274	45,680	111,340	139,139	8,626	–	–
Other liabilities	163,392	164,432	67,474	48,170	15,629	23,477	8,679	632	371	–
Total	7,545,850	7,650,819	4,329,676	685,405	588,206	1,119,964	887,747	39,450	371	–
Gross loan commitments		1,344,434	1,344,434	–	–	–	–	–	–	–

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2019									
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Overdue
Non-derivative financial assets										
Cash and Balances with central banks	567,613	567,613	90,384	–	–	–	–	–	477,229	–
Amounts due from banks and other financial institutions	521,209	523,740	75,300	326,801	51,242	59,109	11,107	181	–	–
Loans and advances to customers	4,267,929	5,163,254	–	425,241	389,108	1,360,791	1,435,590	1,536,707	–	15,817
Investments										
– Financial assets at fair value through profit or loss	398,276	410,153	4,734	96,022	56,958	160,636	71,844	18,397	1,547	15
– Debt investments at amortised cost	907,472	1,092,832	–	11,961	21,924	128,632	550,066	379,389	155	705
– Debt investments at fair value through other comprehensive income	472,586	528,809	1,863	11,148	22,899	122,160	271,451	98,365	497	426
– Equity investments designated at fair value through other comprehensive income	6,077	6,077	–	–	–	–	–	–	6,077	–
Other assets	72,870	73,413	27,196	7,967	7,390	11,342	7,476	1,627	6,504	3,911
Total	7,214,032	8,365,891	199,477	879,140	549,521	1,842,670	2,347,534	2,034,666	492,009	20,874
Non-derivative financial liabilities										
Amounts due to banks and other financial institutions	1,138,714	1,187,903	440,802	253,535	153,219	315,174	18,230	6,943	–	–
Deposits from customers	4,844,422	4,993,293	2,906,977	364,336	434,185	581,100	705,095	1,600	–	–
Financial liabilities at fair value through profit or loss	43,434	44,233	9,391	10,202	3,941	1,094	13,545	6,060	–	–
Lease liabilities	14,379	15,858	–	525	475	2,768	9,445	2,645	–	–
Debt securities issued	575,362	599,308	–	12,541	107,009	306,506	132,560	40,692	–	–
Other liabilities	128,346	129,318	61,356	30,778	9,326	15,171	7,486	245	4,956	–
Total	6,744,657	6,969,913	3,418,526	671,917	708,155	1,221,813	886,361	58,185	4,956	–
Gross loan commitments		1,148,807	1,148,807	–	–	–	–	–	–	–

Note: Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(d) Operational risk

Operational risk arises from the direct and indirect loss due to technique, procedure, infrastructure and staff deficiency, as well as other risks which have effect on operation, which includes legal risk. But the strategic risk and reputation risk are not included.

During the reporting period, through the strengthening of operational risk appraisal and assessment mechanisms, stepping up the identification, evaluation and monitoring of operational risk in key areas, the Group carried out a comprehensive special management of low-risk business. Starting with process, institution, employee and system, the Group focused on the existing problems of critical control segment, and measured these problems by management requirement's solidification and refinement. Meanwhile, further improvement on operational risk management framework and methods, developing operational risk assessment mechanism and strengthening operational risk management economic capital allocation mechanism can enhance the ability and effectiveness of operational risk's management in the Group. Now all major indexes can meet the requirements of the Group's risk preference.

In face of challenges from internal and external operations and management, the Group will, based on its risk preference, continue to upgrade its risk management skills, strengthen operational risk monitoring and controls, as well as endeavour to prevent and reduce operational risk losses.

(e) Capital management

The objectives of the Group's capital management are to:

– Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion and strategic planning implementation for comprehensive and coordinated and sustainable growth;

– Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;

– Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate client pricing and decision-making, and increase capital deployment efficiency;

– Reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns to shareholders.

The Group manages its capital structure and adjust it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, additional tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio under an approach regulated by CBIRC. The Group and the Bank file required information to CBIRC quarterly.

60. Risk management *(continued)*

(e) Capital management *(continued)*

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers the Bank's all branches. As at 31 December 2020, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: CMB WLB, CMBICHC, CMBFLC and CMFM, CMBWM, CIGNA & CMAM.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. On 18 April 2014, the CBIRC approved the Bank to adopt the advanced capital management approach. Within the scope of approval of the CBIRC, the Bank could calculate corporation and financial institutions risk exposure using the primary internal rating-based approach, retail risk exposure using the advanced internal rating-based approach, market risk using the internal model approach, and operational risk using the standardised approach. At the same time, the CBIRC implemented a transition period for commercial banks approved to use the advanced approach to calculate capital. During the transition period, the commercial banks should use both the advanced approach and other approaches to calculate capital adequacy ratios, and comply with minimum capital requirements.

The Group's capital management focuses on the capital adequacy ratio management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resisting. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plans and manages its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into interest rate, currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge financial instruments and derivative financial instruments managed in conjunction with financial instruments designated at fair value through profit or loss.

The Group will choose appropriate hedging strategies and tools in light of the risk profile of interest rates or exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest rates or exchange rate movements.

The Group is exposed to foreign exchange risk when assets or liabilities denominated in foreign currencies. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

In cash flow hedge, the Group uses interest rate swaps as hedging instruments to hedge the interest cash flows arising from the RMB loans and interbank assets portfolios.

The following tables provide an analysis of the notional amounts and the corresponding fair value of derivatives of the Group by residual maturity at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume that has not been delivered at the end of the reporting period, not representing amounts at risk.

	2020						
	Notional amounts with remaining life of					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	561,522	1,223,977	1,499,110	2,913	3,287,522	12,559	(12,318)
Bond forwards	–	–	65	–	65	6	(3)
Bond futures	89	9	–	–	98	–	–
Bond options	220	8,410	–	–	8,630	3	(6)
Subtotal	561,831	1,232,396	1,499,175	2,913	3,296,315	12,568	(12,327)
Currency derivatives							
Forwards	58,155	31,280	1,452	2,703	93,590	1,691	(1,461)
Foreign exchange swaps	440,943	477,298	12,789	867	931,897	20,063	(20,136)
Futures	17	706	–	–	723	–	–
Options	130,903	104,921	3,068	–	238,892	11,344	(14,623)
Subtotal	630,018	614,205	17,309	3,570	1,265,102	33,098	(36,220)
Other derivatives							
Equity options purchased	488	67,353	–	–	67,841	490	–
Equity options written	488	67,353	–	–	67,841	–	(464)
Commodity trading	4,948	3,929	631	–	9,508	1,048	(987)
Subtotal	5,924	138,635	631	–	145,190	1,538	(1,451)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	32	1,030	2,871	819	4,752	–	(15)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	471	909	1,358	–	2,738	–	(47)
Currency derivatives							
Foreign exchange swaps	–	1,499	74	–	1,573	68	(1)
Subtotal	471	2,408	1,432	–	4,311	68	(48)
Total						47,272	(50,061)

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2019						
	Notional amounts with remaining life of					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	775,720	2,143,146	1,723,469	1,272	4,643,607	10,960	(10,676)
Bond forwards	488	348	35	–	871	17	(14)
Bond futures	10	–	–	–	10	–	–
Bond options	–	–	279	–	279	1	–
Subtotal	776,218	2,143,494	1,723,783	1,272	4,644,767	10,978	(10,690)
Currency derivatives							
Forwards	36,636	7,007	803	21,541	65,987	569	(477)
Foreign exchange swaps	428,898	390,664	12,541	1,315	833,418	8,595	(7,781)
Futures	380	2,564	–	–	2,944	–	–
Options	124,262	103,354	5,183	–	232,799	3,313	(3,498)
Subtotal	590,176	503,589	18,527	22,856	1,135,148	12,477	(11,756)
Other derivatives							
Equity options purchased	1,423	5,113	56,447	–	62,983	507	–
Equity options written	1,423	5,113	56,447	–	62,983	–	(507)
Commodity trading	1,608	573	539	–	2,720	241	(213)
Credit default swap	697	836	–	–	1,533	2	–
Subtotal	5,151	11,635	113,433	–	130,219	750	(720)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	55	6,549	507	209	7,320	5	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	634	1,271	2,577	–	4,482	7	(34)
Currency derivatives							
Foreign exchange swaps	–	–	586	–	586	2	–
Subtotal	634	1,271	3,163	–	5,068	9	(34)
Total						24,219	(23,200)

There was no ineffective portion of cash flow hedge during the year ended 31 December 2020 and 2019.

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken the effects of bilateral netting arrangements into account.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2020	2019
Credit risk weighted assets of counterparties		
Interest rate derivatives	**266**	257
Currency derivatives	**5,574**	6,404
Other derivatives	**3,804**	4,439
Credit valuation adjustment risk weighted assets	**6,011**	10,517
Total	**15,655**	21,617

Note: The Group calculates the risk exposure of derivatives in accordance with the notice on "Measurement Rules of Default Risk Assets of Derivatives Counterparties" and supporting calculation rules issued by the former CBRC, and considers the impact of netting settlements. The credit risk weighted amounts in respect of derivatives are calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC, covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets. The amount within the scope approved by the former CBRC in April 2014 was calculated using the internal rating-based approach, and the risk-weighted approach is adopted to calculate those not eligible to the internal rating-based approach.

(g) Fair value information

(i) Financial instruments at fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework to govern the measurement of fair values. This includes a valuation team that has responsibility for overseeing all significant fair value measurements including three levels of fair values, and reports directly to the person in charge of accounting affairs.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the level in the fair value hierarchy in which such valuation should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest input that is significant to the entire fair value measurement. The levels are defined as follows:

– Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

– Level 2 inputs: other than quoted prices included in level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities inputs;

– Level 3 inputs: inputs that are unobservable for assets or liabilities.

The Group recognises transfers between levels of the fair value hierarchy in which they occur.

The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis

The table below analyses financial instruments without interests, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy:

	2020			
	Level1	Level2	Level3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	24,267	121,840	456	146,563
– Long position in precious metal contracts	96	–	–	96
– Equity investments	836	776	1,738	3,350
– Investments in funds	84	136,229	519	136,832
– Wealth management products	–	1,259	–	1,259
– Non-standard assets – Bills	–	175,303	–	175,303
– Others	–	1,063	–	1,063
Subtotal	25,283	436,470	2,713	464,466
Investments designated at FVTPL				
– Debt securities	2,618	28,625	14	31,257
Derivative financial assets	–	47,272	–	47,272
Loans and advances to customers at FVTPL	–	–	6,856	6,856
Debt investments at FVTOCI	109,282	407,271	–	516,553
Loans and advances to customers at FVTOCI	–	331,070	44,289	375,359
Equity investments designated at FVTOCI	2,075	–	5,064	7,139
Total	139,258	1,250,708	58,936	1,448,902
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	20,361	–	–	20,361
– Short selling securities	130	499	–	629
Subtotal	20,491	499	–	20,990
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	1,589	–	–	1,589
– Certificates of deposit issued	–	605	–	605
– Debt securities issued	13,914	–	–	13,914
– Others	–	17,604	5,649	23,253
Subtotal	15,503	18,209	5,649	39,361
Derivative financial liabilities	–	50,061	–	50,061
Total	35,994	68,769	5,649	110,412

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

	2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	17,336	100,304	378	118,018
– Long position in precious metal contracts	183	–	–	183
– Equity investments	1,142	–	1,315	2,457
– Investments in funds	43	71,242	414	71,699
– Wealth management products	–	20	844	864
– Non-standard assets – Bills	–	199,817	–	199,817
Subtotal	18,704	371,383	2,951	393,038
Investments designated at FVTPL				
– Debt securities	4,830	391	17	5,238
Derivative financial assets	–	24,219	–	24,219
Loans and advances to customers at FVTPL	–	–	5,779	5,779
Debt investments at FVTOCI	104,530	374,326	–	478,856
Loans and advances to customers at FVTOCI	–	233,789	30,346	264,135
Equity investments designated at FVTOCI	2,329	–	3,748	6,077
Total	130,393	1,004,108	42,841	1,177,342
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	13,701	–	–	13,701
– Short selling securities	1,187	–	–	1,187
Subtotal	14,888	–	–	14,888
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	9,217	–	–	9,217
– Certificates of deposit issued	–	767	–	767
– Debt securities issued	9,237	–	–	9,237
– Others	–	6,220	3,105	9,325
Subtotal	18,454	6,987	3,105	28,546
Derivative financial liabilities	–	23,200	–	23,200
Total	33,342	30,187	3,105	66,634

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(1) Basis of determining the market price for recurring fair value measurements categorised within Level 1

Bloomberg's quoted prices are used for financial instruments with quoted prices in an active market.

(2) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised within Level 2

Fair value of RMB denominated bonds whose value is available on China bond pricing system on the valuation date is measured using the latest valuation results published by China bond pricing system.

Fair value of foreign currency bonds without quoted prices in an active market, is measured by using the comprehensive valuations issued by Bloomberg, etc.

Fair value of foreign exchange forwards contracts in derivative financial assets is measured by discounting the differences between the contract prices and market prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of the reporting period.

Fair value of foreign exchange options is measured using the Black-Scholes model, applying applicable foreign exchange spot rates, foreign exchange yield curves and exchange rate volatilities. The above market data used are quoted price in an active market, provided by Bloomberg, Reuters and other market information providers.

Fair value of interest rate swaps in derivative financial assets is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of reporting date. The discount rates used are the related currency denominated swap yield curve as at the end of reporting period.

Dealing price of the investment fund derived from the net asset values of the investment funds with reference to observable quoted price in market is used as the basis of determining the market price for recurring fair value.

The fair value of loans and advances to customers at FVTOCI in Mainland China is measured based on the transaction interest rate of rediscounted bills announced by Shanghai Commercial Paper Exchange; the Group uses 10-day average of the transaction interest rate as the basis for calculating the value of discounted bills. The fair value of loans and advances to customers at FVTOCI outside Mainland China is measured by discounted cash flow approach. The discount rates used are determined by factors such as credit rating of the loan customer provided by S&P, Moody's or Fitch, customer industry, term to maturity of the loan, loan currency and the issuer credit spread.

The fair value of non-standard bills at FVTPL in Mainland China is measured based on the transaction interest rate of rediscounted bills announced by Shanghai Commercial Paper Exchange; the Group uses 10-day average of the transaction interest rate as the basis for calculating the value of discounted bills.

The fair value of certificates of deposit issued is measured by using the comprehensive valuations issued by Bloomberg.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) *Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3:*

	Fair value as at 31 December 2020	Valuation techniques	Unobservable input
Equity investments designated at FVTOCI	1,200	Market approach	Liquidity discount
Equity investments designated at FVTOCI	3,864	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	6,856	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Loans and advances to customers at FVTOCI	44,289	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Investments measured at FVTPL			
– Debt securities	456	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,738	Market approach	Liquidity discount
– Investments in funds	519	Market approach	Liquidity discount
Investments designated at FVTPL	14	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	206	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	5,443	Net fund value approach	Net assets, liquidity discount

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3: *(continued)*

	Fair value as at 31 December 2019	Valuation techniques	Unobservable input
Equity investments designated at FVTOCI	1,105	Market approach	Liquidity discount
Equity investments designated at FVTOCI	2,643	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	5,779	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Loans and advances to customers at FVTOCI	30,346	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Investments measured at FVTPL			
– Debt securities	378	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,315	Market approach	Liquidity discount
– Investments in funds	414	Market approach	Liquidity discount
– Wealth management products	844	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Investments designated at FVTPL	17	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	3,105	Net fund value approach	Net assets, liquidity discount

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3: (continued)

1) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Assets	Financial assets at fair value through profit or loss	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2020	**2,968**	**5,779**	**30,346**	**3,748**	**42,841**
Profit or loss					
– In profit or loss	**454**	**296**	**–**	**–**	**750**
– In other comprehensive income	**–**	**–**	**20**	**1,469**	**1,489**
Purchases/Additions	**539**	**796**	**86,003**	**82**	**87,420**
Disposals or settlement on maturity	**(1,106)**	**–**	**(72,080)**	**–**	**(73,186)**
Exchange difference	**(128)**	**(15)**	**–**	**(235)**	**(378)**
At 31 December 2020	**2,727**	**6,856**	**44,289**	**5,064**	**58,936**
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	**454**	**296**	**–**	**–**	**750**

Assets	Financial assets at fair value through profit or loss	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2019	3,641	403	20,684	2,540	27,268
Profit or loss					
– In profit or loss	(540)	27	–	–	(513)
– In other comprehensive income	–	–	(60)	1,018	958
Purchases/loans	131	5,741	51,435	–	57,307
Transfer to Level 3	59	–	–	–	59
Disposals or settlement on maturity	(314)	(400)	(41,713)	–	(42,427)
Exchange difference	(9)	8	–	190	189
At 31 December 2019	2,968	5,779	30,346	3,748	42,841
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	(540)	35	–	–	(505)

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3: (continued)

1) Valuation of financial instruments with significant unobservable inputs (continued)

Financial liabilities at fair value through profit or loss	2020	2019
At 1 January	**3,105**	2,514
In profit or loss	**402**	(17)
Issues	**2,686**	591
Sales and settlements	**(453)**	–
Exchange difference	**(91)**	17
At 31 December	**5,649**	3,105
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	**390**	(17)

2) Transfers between level 1 and level 2 for financial instruments which are measured at fair value on an on-going basis, the reasons for these transfers and the policy for determining when transfers between level 1 and level 2 are deemed

During the year, there were no significant transfers between different levels for financial instruments which are measured at fair value on a recurring basis.

3) Changes in valuation technique and the reasons for making the changes

During the year, the Group has not changed the valuation techniques for financial assets that are measured at fair value on a recurring basis.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) Financial assets and financial liabilities that are not measured at fair value

(1) Financial Assets

The Group's financial assets that are not measured at fair value mainly include cash, Balances with central banks, balances and placements with banks and other financial institutions, amounts held under resale agreements, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets will mature within 1 year, and their carrying value approximate their fair value. Loans and advances are stated at amortised costs less allowances for impairment loss (Note 22). Loans and advances are mostly priced at floating rates close to the PBOC rates and repriced at market rates at least annually, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying value of loans and advances is close to the fair value.

Debt investments at amortised cost are stated at amortised costs less impairment, and the fair value of listed debt securities are disclosed in Note 23(b).

The carrying value, fair value and fair value hierarchy of Debt investments at amortised cost not measured or disclosed at fair value are listed as below:

The fair value measurements for Level 1 are based on quoted price in active market, for example, released by Bloomberg. For Level 2, the latest valuation results released by China bond pricing system are used to measure fair value of bonds denominated in RMB. The Level 2 category also includes foreign currency bonds without active quoted price, which are measured by Bloomberg comprehensive valuation. The Level 3 category adopts discounted cash flow valuation technique to measure fair value.

	2020					2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Debt investments at amortised cost	1,034,269	1,049,374	3,387	914,025	131,962	907,472	930,217	6,577	789,068	134,572

(2) Financial Liabilities

Financial liabilities mainly include deposits from customers, amounts due to banks and other financial institutions, sold under repurchase agreements, and debts securities issued by the Group. The carrying value of financial liabilities approximate their fair value at the end of the year presented, except the financial liabilities set out below:

	2020					2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	34,302	35,243	–	35,243	–	34,469	35,631	–	35,631	–
Long-term debt securities issued	146,559	149,115	–	149,115	–	165,602	167,405	–	167,405	–
Total	180,861	184,358	–	184,358	–	200,071	203,036	–	203,036	–

61. Material related-party transactions

(a) Material connected person information

The Bank's main shareholders and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB16,900 million	7,559,427,375	29.97% (note (i)(viii))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited company	Miao Jianmin
China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB7,000 million	3,289,470,337	13.04% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Limited company	Miao Jianmin
Shenzhen Yan Qing Investment Development Co., Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Xu Xin
Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Xu Xin
China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB778 million	1,147,377,415	4.55%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Hong Xiaoyuan
Best Winner Investment Co., Ltd.	British Virgin Islands	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–
China Merchants Union (BVI) Limited	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited company	–
China Merchants Industry Development (Shenzhen) Limited	Shenzhen	USD10 million	55,196,540	0.22%	–	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited company	Wang Xiaoding
China COSCO Shipping Corporation Limited.	Beijing	RMB11,000 million	2,515,193,034	9.97% (note (iii))	–	International shipping business, import and export of goods and technology, International freight forwarding business, etc.	Shareholder's parent company	Limited company	Xu Lirong

61. Material related-party transactions *(continued)*

(a) Material connected person information *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Ocean Shipping Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	–	Transportation business, shipping space booking, time charter, voyage charter, leasing, constructing and trading ships, etc.	Shareholder	Limited company	Xu Lirong
China COSCO Shipping (Guangzhou) Co., Ltd.	Guang zhou	RMB3,191 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited company	Shou Jian
Guangzhou Haining Maritime Technology Service Co., Ltd.	Guang zhou	RMB2 million	103,552,616	0.41%	–	Business services	Shareholder	Limited company	Huang Biao
China COSCO Shipping (Shanghai) Co., Ltd.	Shanghai	RMB1,399 million	75,617,340	0.30%	–	Shipping business, leasing business, ship repairing and building etc.	Shareholder	Limited company	Zhao Bangtao
China COSCO Shipping Financial Holdings Co., Ltd.	Hong Kong	HKD500 million	54,721,930	0.22%	–	Leasing business, financing business, insurance business etc.	Shareholder	Limited company	Wang Daxiong
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	Guangzhou	RMB299 million	10,121,823	0.04%	–	Ship purchasing and marketing business, shipping agency, leasing business, shipping business etc.	Shareholder	Limited company	Ren Zhaoping
China Insurance Security Fund Co., Ltd	Beijing	RMB100 million	1,036,132,435	4.11% (note (iv))	–	Investing and establishing insurance companies, supervising and managing various domestic and international businesses of holding investment enterprises, and investment business permitted by national laws and regulations, etc.	Shareholder's parent company	limited company	Yu Hua
Dajia Life Insurance Co.,Ltd	Beijing	RMB30,790 million	1,036,132,435	4.11%	–	Life insurance, health insurance, accident insurance, and other personal insurance services, etc.	Shareholder	Joint stock limited company	He Xiaofeng
China Communications Construction Group LTD	Beijing	RMB7,274 million	422,770,418	1.68% (note (v))	–	General contraction for construction	Shareholder's parent company	Limited company	Wang Tongzhou
China Communications Construction Co., Ltd	Beijing	RMB16,175 million	301,089,738	1.19%	–	General contraction for construction, leasing and repair, technical consulting service, imports and exports, investment and management business	Shareholder	Joint stock limited company	Wang Tongzhou

61. Material related-party transactions *(continued)*

(a) Material connected person information *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
Shanghai Automotive Industry Corporation (Group)	Shanghai	RMB21,599 million	310,125,822	1.23% (note (vi))	–	Production and sale of vehicles, asset management business, domestic trade business, consulting service	Shareholder's parent company	Limited company	Chen Hong
SAIC Motor Corporation Limited	Shanghai	RMB11,683 million	310,125,822	1.23%	–	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong
Hebei Port Group Co., Ltd.	Qin Huangdao	RMB8,000 million	296,291,627	1.17% (note (vii))	–	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited company	Cao ziyu
CMB International Capital Holdings Corporation Limited (CMBICHC)	Hong Kong	HKD4,129 million	–	–	100%	Investment bank and investment managements	Subsidiary	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (CMBFLC)	Shanghai	RMB6,000 million	–	–	100%	Finance lease	Subsidiary	Limited company	Shi Shunhua
CMB Wing Lung Bank Limited (CMB WLB)	Hong Kong	HKD1,161 million	–	–	100%	Banking	Subsidiary	Limited company	Zhu Qi
China Merchants Fund Management Co., Ltd. (CMFM)	Shenzhen	RMB1,310 million	–	–	55%	Fund Management	Subsidiary	Limited company	Liu Hui
CMB Wealth Management Co., Ltd	Shenzhen	RMB5,000 million	–	–	100%	Asset management	Subsidiary	Limited company	Liu Hui
CMB Europe S.A	Luxembourg	EUR50 million	–	–	100%	Banking	Subsidiary	Limited company	Li Biao
Cigna & CMB Asset Management Company Limited	Beijing	RMB500 million	–	–	Note 24 (vii)	Asset management	Subsidiary	Limited company	Liu Hui

Notes:

(i) CMG holds 29.97% of the Bank (2019: 29.97%) through its subsidiaries.

(ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 13.04% of the Bank as at 31 December 2020 (2019: 13.04%).

(iii) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (2019: 9.97%) through its subsidiaries.

(iv) China Insurance Security Fund Co., Ltd ("China Insurance Security Fund") holds 4.11% of the Bank (2019: 9.98%) through respectively holds 98.23% of Dajia Insurance Group Co., Ltd.

(v) China Communications Construction Group LTD ("China Communications Construction Group") holds 1.68% of the bank through its subsidiaries (2019:1.68%).

(vi) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.23% of the bank through its subsidiary (SAIC Motor Corporation Limited) (2019: 1.23%).

(vii) Hebei Port Group Company Ltd. directly holds 1.17% of the Bank (2019: 1.21%).

(viii) The sum of the direct ratio of CMG's shareholdings in the Bank and the above-mentioned relevant numbers may differ slightly in the mantissa due to rounding.

61. Material related-party transactions *(continued)*

(a) Material connected person information *(continued)*

The information of registered capital of the related parties as at 31 December 2020 and 2019 is as below:

Name of related party	2020	2019
CMG	**RMB16,900,000,000**	RMB16,700,000,000
CMSNCL	**RMB7,000,000,000**	RMB7,000,000,000
Shenzhen Yan Qing Investment Development Co., Ltd.	**RMB600,000,000**	RMB600,000,000
Shenzhen Chu Yuan Investment and Development Company Ltd.	**RMB600,000,000**	RMB600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	**RMB777,800,000**	RMB600,000,000
Best Winner Investment Ltd.	**USD50,000**	USD50,000
China Merchants Union (BVI) Limited.	**USD60,000**	USD60,000
China Merchants Industry Development (Shenzhen) Co., Ltd.	**USD10,000,000**	USD10,000,000
China Insurance Security Fund Co., Ltd	**RMB100,000,000**	RMB100,000,000
Dajia Life Insurance Co.,Ltd	**RMB30,790,000,000**	RMB30,790,000,000
China COSCO Shipping Corporation Limited.	**RMB11,000,000,000**	RMB11,000,000,000
China Ocean Shipping Co., Ltd.	**RMB16,191,351,300**	RMB16,191,351,300
China COSCO Shipping (Guangzhou) Co., Ltd.	**RMB3,191,200,000**	RMB3,191,200,000
Guangzhou Haining Maritime Technology Service Co., Ltd.	**RMB2,000,000**	RMB2,000,000
China COSCO Shipping (Shanghai) Co., Ltd.	**RMB1,398,941,000**	RMB1,398,941,000
China COSCO Shipping Financial Holdings Co., Ltd.	**HKD500,000,000**	HKD500,000,000
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	**RMB299,020,000**	RMB299,020,000
China Communications Construction Group LTD	**RMB7,274,023,830**	RMB7,274,023,830
China Communications Construction Co., Ltd	**RMB16,174,735,425**	RMB16,174,735,425
Shanghai Automotive Industry Corporation (Group)	**RMB21,599,175,737**	RMB21,599,175,737
SAIC Motor Corporation Limited	**RMB11,683,461,365**	RMB11,683,461,365
Hebei Port Group Co., Ltd.	**RMB8,000,000,000**	RMB8,000,000,000
CMBICHC	**HKD4,129,000,000**	HKD4,129,000,000
CMBFLC	**RMB6,000,000,000**	RMB6,000,000,000
CMB WLB	**HKD1,160,950,575**	HKD1,160,950,575
CMFM	**RMB1,310,000,000**	RMB1,310,000,000
CMBWM	**RMB5,000,000,000**	RMB5,000,000,000
CMB Europe S.A.	**EUR50,000,000**	EUR50,000,000
Cigna & CMB Asset Management Company Limited	**RMB500,000,000**	–

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the Bank									
	CMSNCL		CMBICHC		CMBFLC		CMB WLB		CMFM		CMBWM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%	RMB	%
At 1 January 2020	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100%
Change	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2020	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100%

	The Bank held by the largest shareholder		The subsidiaries held by the Bank									
	CMSNCL		CMBICHC		CMBFLC		CMB WLB		CMFM		CMBWM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%	RMB	%
At 1 January 2019	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	–	–
Change	–	–	–	–	–	–	–	–	–	–	5,000,000,000	100%
At 31 December 2019	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100%

61. Material related-party transactions *(continued)*

(b) Transaction terms and conditions

In each year, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The opinion of the directors is that the Group's material related-party transactions were all entered into normal commercial terms. The banking transactions were priced at the market rates at each time of transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2020	2019
Short-term loans	4.35%	4.35%
Medium to long-term loans	4.75% to 4.90%	4.75% to 4.90%
Demand deposits	0.35%	0.35%
Time deposits	1.10% to 2.75%	1.10% to 2.75%

There were no credit impaired loans and advances granted to related parties during the year.

(c) Shareholders and their related companies

The Bank's largest shareholder CMG holds 29.97% (2019: 29.97%) shares of the Bank through its subsidiaries as at 31 December 2020 (among them 13.04% shares is held by CMSNCL (2019: 13.04%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2020	2019
On-balance sheet:		
– Loans and advances to customers	37,411	26,222
– Investments	2,717	2,527
– Deposits from customers	85,225	68,795
– Placements with banks and other financial institutions	4,500	700
– Lease liabilities	57	39
Off-balance sheet:		
– Irrevocable guarantees	3,615	2,449
– Irrevocable letters of credit	380	341
– Bills of acceptances	292	462
Interest income	1,333	834
Interest expense	1,336	1,189
Net fee and commission income	662	561
Operating expenses	(22)	(34)
Other net income	(22)	(1)

61. Material related-party transactions *(continued)*

(d) Companies controlled by or were significantly influenced by or appointed common directors, senior management and/or supervisors of the Bank other than those under Note 61(c) above

	2020	2019
On-balance sheet:		
– Loans and advances to customers	45,784	22,577
– Investments	3,008	3,788
– Deposits from customers	60,237	48,969
– Lease liabilities	3	–
Off-balance sheet:		
– Irrevocable guarantees	7,539	5,429
– Irrevocable letters of credit	800	640
– Bills of acceptances	5,402	6,391
Interest income	3,173	1,402
Interest expense	458	530
Net fee and commission income	751	1,042
Operating expenses	(1,349)	(1,614)
Other net income	11	6

(e) Associates and joint ventures other than those under Note 61(c) above

	2020	2019
On-balance sheet:		
– Loans and advances to customers	4,690	6,178
– Investments	100	–
– Deposits from customers	1,354	1,040
– Placements with banks and other financial institutions	14,500	11,600
Off-balance sheet:		
– Irrevocable guarantees	8,700	8,299
Interest income	75	79
Interest expense	16	19
Net fee and commission income	1,090	973
Operating expenses	(5)	(31)

(f) Other shareholders holding more than 5% shares

	2020	2019
On-balance sheet:		
– Loans and advances to customers	27,545	31,715
– Investments	793	795
– Deposits from customers	34,398	41,031
– Lease liabilities	5	12
Off-balance sheet:		
– Irrevocable guarantees	25,433	36,365
– Irrevocable letters of credit	45	50
– Bills of acceptances	108	540
Interest income	451	746
Interest expense	330	1,341
Net fee and commission income	1,779	1,290
Other net income	119	19

61. Material related-party transactions *(continued)*

(g) Subsidiaries

	2020	2019
On-balance sheet		
– Balances with banks and other financial institutions	**4,072**	3,285
– Placements with banks and other financial institutions	**37,331**	28,654
– Loans and advances to customers	**477**	717
– Investments	**1,508**	1,978
– Deposits from banks and other financial institutions	**8,789**	8,800
– Placements from banks and other financial institutions	**4**	30
– Deposits from customers	**6,596**	3,130
Off-balance sheet		
– Bills of acceptances	**113**	277
Interest income	**930**	816
Interest expense	**188**	454
Net fee and commission	**(3,199)**	378
Operating expenses	**112**	132
Other net income	**71**	–

All significant balances and transactions between the Bank and its subsidiaries have been eliminated in the consolidated financial statements.

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

	2020	2019
Salaries and other emoluments	**40,839**	46,746
Discretionary bonuses (Note 11(i))	**–**	13,958
Share-based payment	**30,290**	54,390
Contributions to defined contribution retirement schemes	**503**	506
Total	**71,632**	115,600

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 39(a)(iii)) to senior management under the Bank's H share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in Note 4(17); and the amounts have been charged to the consolidated statement of profit or loss and other comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2020 and 31 December 2019.

62. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the subsidiaries. In the opinion of the directors of the Bank, the Group does not have any subsidiary with significant non-controlling interests during the reporting period.

(a) Perpetual debt capital

CMB WLB, the Group's subsidiary, issued perpetual debt of US$170 million on 27 April 2017 and another perpetual debt of US$400 million on 24 January 2019.

	Principal	Distributions/Paid	Total
At 1 January 2020	3,979	–	3,979
Perpetual debt capital issued	–	–	–
Distributions in 2020	–	234	234
Paid in 2020	–	(234)	(234)
Exchange difference	(226)	–	(226)
At 31 December 2020	3,753	–	3,753

There is no maturity of the instruments and the payments of distribution can be cancelled at the discretion of the issuer. Cancelled interest is not cumulative. There is no contractual obligation of the issuer to deliver cash to other parties. During the year ended 31 December 2020, CMB WLB did not cancel the payment of distribution and the corresponding amount was paid to perpetual debt holders accordingly.

63. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where 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 has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitisation of credit assets

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

The Group carried out an assessment based on the criteria as detailed in Note 4(5), and with respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. During the year ended 31 December 2020 the Group has transferred the ownership of the loans amounted to RMB72,001 million (2019: RMB115,881 million), as well as substantially all the risks and rewards of the loans have been transferred, the full amount of such securitised loans were derecognised.

63. Transfers of financial assets *(continued)*

Securitisation of credit assets *(continued)*

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the Group recognises the assets on the statement of financial position in accordance with the Group's continuing involvement and the rest is derecognised. The extent of the Group's continuing involvement is the extent of the risks and rewards undertaken by the Group with value changes of the transferred financial assets. The amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring the subordinated tranches, was RMB27,893 million during the year ended 31 December 2020 (2019: RMB10,402 million). As at 31 December 2020, the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB3,128 million during the year ended 31 December 2020 (2019: RMB987 million). The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transactions of credit assets

During the year 2020, the Group has transferred credit assets to third party institutions directly amounted to RMB924 million (2019: RMB889 million), and none of these transferred credit assets is transferred to structured entities (2019: Nil). The Group carried out an assessment based on the criteria as detailed in Note 4(5), and concluded that these transferred assets qualified for full de-recognition.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities, discounted bills held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

64. Interests in unconsolidated structured entities

(a) Interest in the structured entities sponsored by third party institutions

The Group holds interests in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include wealth management products, asset management schemes, trust beneficiary rights, assets backed securities and investments in funds, and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate income from managing assets on behalf of investors and are financed through the issuance of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 31 December 2020 and 31 December 2019 in the structured entities sponsored by third party institutions and an analysis of the line items in the statement of financial position as at 31 December 2020 and 31 December 2019 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	31 December 2020				
	Carrying amount				
	Financial assets at fair value through profit or loss	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	63,453	99,916	–	163,369	163,369
Trust beneficiary rights	–	37,663	–	37,663	37,663
Asset backed securities	3,096	2,691	1,442	7,229	7,229
Investment in funds	136,832	–	–	136,832	136,832
Wealth management products	34	–	–	34	34
Total	203,415	140,270	1,442	345,127	345,127

	31 December 2019				
	Carrying amount				
	Financial assets at fair value through profit or loss	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	165,068	109,344	–	274,412	274,412
Trust beneficiary rights	–	33,389	–	33,389	33,389
Asset backed securities	1,075	40	1,185	2,300	2,300
Investment in funds	71,699	–	–	71,699	71,699
Total	237,842	142,773	1,185	381,800	381,800

The maximum exposures held by the Group in the subordinated tranches of assets backed securities, investments in funds, the wealth management products, asset management schemes, trust beneficiary rights, senior tranches of assets backed securities are the carrying amount of the assets held by the Group at the reporting date in accordance with the line items of these assets recognised in the statement of financial positions.

64. Interests in unconsolidated structured entities *(continued)*

(b) Interest in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products, funds and asset management schemes. The nature and purpose of these structured entities are to generate income from managing assets on behalf of investors. These structured entities are financed through the issue of investment products to investors. Interest held by the Group includes fees charged on management services provided.

As at 31 December 2020, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,445,644 million (31 December 2019: RMB2,142,944 million).

As at 31 December 2020, the amount of the unconsolidated funds, which are sponsored by the Group, is RMB717,489 million (31 December 2019: RMB494,992 million).

As at 31 December 2020, the amount of the unconsolidated asset management schemes, which are sponsored by the Group, is RMB158,575 million (31 December 2019: RMB190,221 million).

As at 31 December 2020, the balance of amounts held under resale agreements and placement with banks and other financial institutions between the Group and its non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB48,898 million (31 December 2019: RMB63,214 million) and nil (31 December 2019: RMB82,113 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

As at 31 December 2020, the amount of the unconsolidated non-principal-guaranteed wealth management products held by the Group is RMB1,225 million (31 December 2019: RMB864 million).

During the year ended 31 December 2020, the amount of the wealth management products sponsored by the Group transferred to the investments measured at amortized cost of the Group was RMB12,629 million (2019: Nil).

During the year ended 31 December 2020, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB10,162 million (2019: RMB7,330 million).

During the year ended 31 December 2020, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB1,874 million (2019: RMB1,400 million).

During the year ended 31 December 2020, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB715 million (2019: RMB744 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2020 with a maturity date before 31 December 2020 was RMB1,924,836 million (2019: RMB2,363,999 million).

65. Comparative figures

Certain comparative figures in the notes have been adjusted to conform with changes in disclosures in current year.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Trial) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

In accordance with the advanced capital management approach approved by CBIRC in April 2014, the Group calculated core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	2020	2019
Core tier-1 capital adequacy ratio	**12.29%**	11.95%
Tier-1 capital adequacy ratio	**13.98%**	12.69%
Capital adequacy ratio	**16.54%**	15.54%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**67,491**	67,281
Surplus reserves	**71,057**	62,184
Regulatory general reserve	**98,082**	90,151
Retained profits	**365,168**	317,643
Qualifying portion of non-controlling interests	**282**	243
Others (note (i))	**7,361**	10,624
Total core tier-1 capital	**634,661**	573,346
Regulatory deductions from core tier-1 capital	**24,569**	23,007
Net core tier-1 capital	**610,092**	550,339
Additional tier-1 capital (note (ii))	**84,092**	34,097
Net tier-1 capital	**694,184**	584,436
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**28,340**	31,700
Surplus provision for loans impairment	**97,119**	99,724
Qualifying portion of non-controlling interests	**1,647**	65
Total tier-2 capital	**127,106**	131,489
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**127,106**	131,489
Net capital	**821,290**	715,925
Total risk-weighted assets	**4,964,542**	4,606,786

Notes:

(i) : Others represent exchange reserve of foreign currency consolidated financial statements under CBIRC's Administrative Measures on the Capital of Commercial Banks (Trial).

(ii) : The Group's additional tier-1 capital includes qualifying portion of non-controlling interests, preferred shares and etc.

(A) Capital adequacy ratio *(continued)*

In 2020, in accordance with the advanced capital management approach approved by CBIRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 11.81%, tier-1 capital adequacy ratio is 13.62%, capital adequacy ratio is 16.29%, net capital is RMB734,022 million and total risk-weighted assets is RMB4,505,299 million.

In 2020, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 10.68%, tier-1 capital adequacy ratio is 12.16%, capital adequacy ratio is 13.79%, net capital is RMB787,438 million and total risk-weighted assets is RMB5,710,544 million.

In 2020, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Bank's core tier-1 capital adequacy ratio is 10.12%, tier-1 capital adequacy ratio is 11.67%, capital adequacy ratio is 13.31%, net capital is RMB700,171 million and total risk-weighted assets is RMB5,258,694 million.

(B) Leverage ratio

In accordance with the CBIRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio and relevant components were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries.

Summary comparison of accounting assets and leverage ratio exposure measure:

	2020	2019
Total consolidated assets as per published financial statements	**8,361,448**	7,417,240
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(48,399)**	(24,603)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**(18,274)**	11,796
Adjustment for securities financing transactions	**45,094**	28,861
Adjustment for off-balance sheet items	**1,079,726**	1,194,234
Other adjustments	**(24,569)**	(23,007)
Balance of adjusted on-balance sheet and off-balance sheet assets	**9,395,026**	8,604,521

(B) Leverage ratio *(continued)*

Leverage ratio, net tier-1 capital, on-balance sheet and off-balance sheet exposures and other information:

	2020	2019
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	**7,983,402**	7,258,371
Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(24,569)**	(23,007)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**7,958,833**	7,235,364
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	**14,080**	13,393
Add-on amounts for potential future exposure associated with all derivatives transactions	**14,918**	21,805
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	**–**	–
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	**–**	–
Less: Exempted central counterparty leg of client-cleared trade exposures	**–**	–
Effective notional amount of written credit derivatives	**–**	817
Less: Adjusted effective notional deductions for written credit derivatives	**–**	–
Total derivative exposures	**28,998**	36,015
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**282,375**	110,047
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
Counterparty credit risk exposure for SFT assets	**45,094**	28,861
Agent transaction exposures	**–**	–
Total securities financing transaction exposures	**327,469**	138,908
Off-balance sheet exposure at gross notional amount	**2,368,667**	2,266,901
Less: Adjustments for conversion to credit equivalent amounts	**(1,288,941)**	(1,072,667)
Balance of adjusted off-balance sheet assets	**1,079,726**	1,194,234
Net tier-1 capital	**694,184**	584,436
Balance of adjusted on-balance sheet and off-balance sheet assets	**9,395,026**	8,604,521
Leverage ratio	**7.39%**	6.79%

(C) Liquidity coverage ratio

The Group prepared and disclosed information on liquidity coverage ratio in accordance with the "Measures for the Disclosure of Information on Liquidity Coverage Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other countries. The average of liquidity coverage ratio of the Group was 145.92% in the fourth quarter of 2020, an increase of 14.19 percentage points from the previous quarter, mainly due to the increase in the scale of cash inflows from financial institutions. The Group's liquidity coverage ratio at the end of the fourth quarter of 2020 was 121.97%, which was in line with the 2020 regulatory requirements of the China Bank and Insurance Regulatory Commission. The breakdown of the Group's average value of each item of liquidity coverage ratio in the fourth quarter of 2020 is set out below:

Serial No.		Unweighted amount (average value)	Weighted amount (average value)
Stock of high quality liquid assets			
1	**Total stock of high quality liquid assets**		**1,208,949**
Cash outflows			
2	Retail and small business customers deposits, of which:	2,157,627	190,959
3	Stable deposits	496,081	24,804
4	Less stable deposits	1,661,546	166,155
5	Unsecured wholesale funding, of which:	3,624,831	1,297,994
6	Operational deposits (excluding correspondent banks)	2,039,466	507,157
7	Non-operational deposits (including all counterparties)	1,543,098	748,570
8	Unsecured debt issuance	42,267	42,267
9	Secured funding	/	20,144
10	Additional requirements, of which:	1,542,014	382,087
11	Cash outflows arising from derivative contract and other transactions arising from related collateral requirements	313,227	313,227
12	Cash outflows arising from secured debt Instruments funding	–	–
13	Undrawn committed credit and liquidity facilities	1,228,787	68,860
14	Other contractual obligations to extend funds	71,470	71,470
15	Other contingent funding obligations	6,866,426	100,010
16	**Total cash outflows**		**2,062,664**
Cash inflows			
17	Secured lending (including reverse repo and securities borrowing)	262,186	261,613
18	Contractual inflows from fully performing loans	1,007,480	643,561
19	Other cash inflows	332,355	328,964
20	**Total cash inflows**	**1,602,021**	**1,234,138**

		Adjusted value
21	**Total stock of high quality liquid assets**	**1,208,949**
22	**Net cash outflows**	**828,526**
23	**Liquidity coverage ratio (%)**	**145.92%**

Note:

(i) The data of mainland in the above table is a simple arithmetic average of the 92-day value for the latest quarter and the monthly average for the date of subsidiaries.

(ii) The high quality liquid assets in the above table are prepared by the central bank reserve available under cash and pressure conditions, as well as the bond in line with definition of Tier 1 and Tier 2 assets set by China Banking and Insurance Regulatory Commission on the "Measures for the Liquidity Risk Management of Commercial Banks".

(D) Net stable funding ratio

The Group prepared and disclosed information on net stable funding ratio in accordance with the "Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other countries. The Group's net stable funding ratio at the end of the fourth quarter of 2020 was 117.51%, representing an increase of 0.32 percentage points as compared with the previous quarter, which was basically stable. The breakdown of the Group's net stable fund ratio in the last two quarters is set out below:

31 December 2020

		Unweighted amount				Weighted amount
Serial No.		No maturity	< 6 months	6 months to 12months	≥ 12months	
Available stable funding (ASF) item						
1	Capital	727,115	–	–	20,000	747,115
2	Regulatory capital	715,415	–	–	20,000	735,415
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,715,542	613,169	17,493	2,828	2,140,931
5	Stable deposits	528,533	1,751	102	60	503,927
6	Less stable deposits	1,187,009	611,418	17,391	2,768	1,637,004
7	Wholesale funding	2,522,586	1,657,968	467,602	259,686	2,297,689
8	Operational deposits	2,102,219	–	–	–	1,051,109
9	Other wholesale funding	420,367	1,657,968	467,602	259,686	1,246,580
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	40,708	171,616	3,443	109,790	19,825
12	NSFR derivative liabilities				91,687	
13	All other liabilities and equity not included in the above categories	40,708	171,616	3,443	18,103	19,825
14	Total ASF					5,205,560
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					210,619
16	Deposits held at other financial institutions for operational purposes	66,364	672	–	–	33,518
17	Performing loans and securities	76,913	2,086,346	1,012,960	2,996,400	3,796,066
18	Performing loans to financial institutions secured by Level 1 HQLA	–	206,369	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	12,245	653,142	225,155	27,548	270,889
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,083,640	733,147	1,593,650	2,226,716
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	127,300	102,607	181,401	232,865
22	Performing residential mortgages, of which:	–	32,683	27,011	1,219,094	1,064,314
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	64,668	110,512	27,647	156,108	234,147
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	129,313	10,833	1,041	121,099	193,797

(D) Net stable funding ratio *(continued)*

31 December 2020 *(continued)*

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12months	≥ 12months	Weighted amount
Required stable funding (RSF) item *(continued)*						
27	Physical traded commodities, including gold	7,971				6,775
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				100	85
29	NSFR derivative assets				85,118	–
30	NSFR derivative liabilities before deduction of variation margin posted				93,369	18,674
31	All other assets not included in the above categories	121,342	10,833	1,041	35,881	168,263
32	Off-balance sheet items				8,827,209	195,940
33	Total RSF					4,429,940
34	Net Stable Funding Ratio (%)					117.51%

30 September 2020

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12months	≥ 12months	Weighted amount
Available stable funding (ASF) item						
1	Capital	710,353	–	–	20,000	730,353
2	Regulatory capital	698,653	–	–	20,000	718,653
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,575,168	643,807	15,382	1,878	2,037,687
5	Stable deposits	495,740	1,890	111	52	472,907
6	Less stable deposits	1,079,428	641,917	15,271	1,826	1,564,780
7	Wholesale funding	2,194,647	2,063,232	227,606	333,984	2,192,182
8	Operational deposits	1,936,170	–	–	–	968,085
9	Other wholesale funding	258,477	2,063,232	227,606	333,984	1,224,097
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	33,196	216,750	3,939	87,195	16,141
12	NSFR derivative liabilities				73,024	
13	All other liabilities and equity not included in the above categories	33,196	216,750	3,939	14,171	16,141
14	Total ASF					4,976,363
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					139,650
16	Deposits held at other financial institutions for operational purposes	57,612	455	–	–	29,033
17	Performing loans and securities	66,232	2,089,784	1,048,700	2,890,011	3,745,777
18	Performing loans to financial institutions secured by Level 1 HQLA	–	170,088	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	8,047	641,393	238,011	44,776	286,711

(D) Net stable funding ratio *(continued)*

30 September 2020 *(continued)*

Serial No.		Unweighted amount No maturity	Unweighted amount < 6 months	Unweighted amount 6 months to 12months	Unweighted amount ≥ 12months	Weighted amount
Required stable funding (RSF) item *(continued)*						
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,088,494	763,480	1,515,778	2,183,119
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	116,217	91,813	156,398	205,673
22	Performing residential mortgages, of which:	–	33,198	26,494	1,194,610	1,043,411
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	58,185	156,611	20,715	134,847	232,536
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	73,709	25,582	1,663	85,309	131,548
27	Physical traded commodities, including gold	8,308				7,062
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				167	142
29	NSFR derivative assets				67,898	–
30	NSFR derivative liabilities before deduction of variation margin posted				74,373	14,875
31	All other assets not included in the above categories	65,401	25,582	1,663	17,244	109,469
32	Off-balance sheet items				8,857,550	200,309
33	**Total RSF**					**4,246,317**
34	**Net Stable Funding Ratio (%)**					**117.19%**

Note:

(i) The Group calculates net stable funding ratio in accordance with the "Measures for the Liquidity Risk Management of Commercial Banks" and relevant statistical regulations.

(ii) Items to be reported in the "no maturity" time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

(iii) The item 26 "Other assets" unweighted amount in the above table does not include the item 30 "NSFR derivative liabilities before deduction of variation margin posted".

(E) Currency concentrations other than RMB

	2020			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	**514,789**	**42,491**	**76,940**	**634,220**
Spot liabilities	**498,529**	**27,393**	**70,538**	**596,460**
Forward purchased	**496,469**	**9,019**	**87,616**	**593,104**
Forward written	**512,955**	**14,274**	**89,931**	**617,160**
Net option position	**11,721**	**169**	**(2,754)**	**9,136**
Net long position	**11,495**	**10,012**	**1,333**	**22,840**
Net structural position	**9,537**	**31,120**	**1,005**	**41,662**

	2019			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	472,674	43,884	68,777	585,335
Spot liabilities	436,787	33,306	74,813	544,906
Forward purchased	419,254	9,124	79,215	507,593
Forward written	444,655	9,237	69,488	523,380
Net option position	2,222	(127)	349	2,444
Net long position	12,708	10,338	4,040	27,086
Net structural position	8,460	32,540	1,046	42,046

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investment properties, property and equipment, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

(F) International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims in foreign currencies on third parties within the Mainland China as international claims.

International claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills, certificates of deposit and securities investment.

International claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk is transferred only when the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2020			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Foreign currencies transactions in Mainland China	**131,081**	**6,050**	**111,106**	**248,237**
Asia Pacific excluding Mainland China	**65,102**	**35,237**	**150,158**	**250,497**
– of which attributed to Hong Kong	**37,344**	**33,862**	**135,236**	**206,442**
Europe	**7,936**	**1,175**	**19,162**	**28,273**
North and South America	**35,131**	**28,197**	**30,223**	**93,551**
Total	**239,250**	**70,659**	**310,649**	**620,558**

	2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	91,598	1,702	75,452	168,752
Asia Pacific excluding Mainland China	43,077	37,338	144,295	224,710
– of which attributed to Hong Kong	24,941	34,766	124,101	183,808
Europe	10,951	2,346	17,928	31,225
North and South America	32,918	45,085	50,046	128,049
Total	178,544	86,471	287,721	552,736

(G) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	2020		2019	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Transportation, storage and postal services	381,898	42	306,642	33
Property development	342,667	53	308,342	55
Manufacturing	256,173	36	240,717	32
Production and supply of electric power, heating power, gas and water	161,777	39	144,530	34
Leasing and commercial services	143,805	28	144,377	22
Wholesale and retail	132,055	38	151,278	34
Construction	101,442	21	95,279	23
Finance	74,892	43	63,420	32
Telecommunications, software and IT services	54,491	35	51,406	28
Water, environment and public utilities management	52,911	46	57,044	51
Mining	31,097	31	29,744	34
Others	65,330	27	59,640	32
Corporate loans and advances subtotal	1,798,538	40	1,652,419	36
Discounted bills	327,479	100	226,040	100
Residential mortgage	1,264,466	100	1,098,673	100
Credit cards	746,560	–	670,922	–
Micro-finance loans	474,545	85	405,155	89
Others	156,713	25	152,193	37
Retail loans and advances subtotal	2,642,284	65	2,326,943	65
Gross loans and advances to customers	4,768,301	58	4,205,402	56

(G) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	2020		2019	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Property development	**48,125**	**59**	60,035	51
Finance	**39,402**	**21**	63,286	37
Transportation, storage and postal services	**30,526**	**87**	30,567	90
Manufacturing	**26,962**	**31**	20,994	22
Wholesale and retail	**17,720**	**37**	11,579	41
Leasing and commercial services	**11,223**	**66**	28,992	61
Telecommunications, software and IT services	**9,644**	**19**	4,494	15
Mining	**9,579**	**36**	9,445	40
Production and supply of electric power, heating power, gas and water	**8,636**	**24**	5,553	17
Water, environment and public utilities management	**2,383**	**83**	1,219	86
Construction	**2,177**	**40**	2,196	24
Others	**12,317**	**62**	11,215	56
Corporate loans and advances subtotal	**218,694**	**47**	249,575	49
Discounted bills	**3,257**	**100**	–	–
Residential mortgage	**10,349**	**100**	9,475	100
Credit cards	**127**	**–**	177	–
Micro-finance loans	**1,183**	**99**	625	100
Others	**27,217**	**97**	25,396	95
Retail loans and advances subtotal	**38,876**	**97**	35,673	96
Gross loans and advances to customers	**260,827**	**55**	285,248	55

(G) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

When the amount of loans and advances to customers for an industry/variety accounts for 10% or above of the total amount of loans and advances to customers, the amount of overdue loans, impaired loans and credit impairment allowances in each expected credit loss stage are disclosed as follows:

	2020				
	Overdue loans and advances	Impaired loans and advances	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL- credit impaired)
Residential mortgage	4,019	3,759	9,042	726	2,729
Credit card	20,065	12,424	7,428	13,630	11,770

	2019				
	Overdue loans and advances	Impaired loans and advances	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL- credit impaired)
Residential mortgage	3,985	2,752	9,038	372	1,940
Credit card	18,349	9,033	4,869	15,969	8,645

As at 31 December 2020, for corporate loans and advances measured at amortised cost, the fair value of collateral held against impaired loans and advances is RMB6,262 million (31 December 2019: RMB7,421 million).

(H) Overdue loans and advances to customers

(i) By geographical segments

	2020	2019
Headquarters	**15,328**	10,835
Yangtze River Delta region	**4,704**	6,920
Bohai Rim region	**6,370**	6,324
Pearl River Delta and West Coast region	**5,400**	6,420
Northeast region	**2,357**	4,023
Central region	**2,914**	2,957
Western region	**2,875**	5,777
Outside Mainland China	**342**	276
Subsidiaries	**694**	932
Total	**40,984**	44,464

(ii) By overdue period

	2020	2019
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	**10,445**	9,015
– between 6 and 12 months (inclusive)	**9,667**	11,273
– over 12 months	**20,872**	24,176
Total	**40,984**	44,464
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	**0.21%**	0.20%
– between 6 and 12 months (inclusive)	**0.19%**	0.25%
– over 12 months	**0.41%**	0.54%
Total	**0.81%**	0.99%

(H) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	2020	2019
Secured portion of overdue loans and advances	**15,148**	11,849
Unsecured portion of overdue loans and advances	**25,315**	32,483
Value of collateral held against overdue loans and advances	**43,862**	46,032

The amount of the Group's overdue loans and advances to financial institutions as at 31 December 2020 was RMB150 million (2019: RMB1 million).

Note: The above analysis represents loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collateral of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(I) Rescheduled loans and advances to customers

	2020		2019	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Rescheduled loans and advances to customers (Note)	**24,878**	**0.49%**	25,022	0.56%
Less:				
– Rescheduled loans and advances overdue more than 90 days	**15,169**	**0.30%**	19,255	0.43%
– Rescheduled loans and advances overdue less than 90 days	**9,709**	**0.19%**	5,767	0.13%

Note: Represents the restructured non-performing loans.

The amount of the Group's rescheduled loans and advances to financial institutions as at 31 December 2020 was 1 million (2019: 1 million).

(J) Non-bank mainland china exposures

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in the Mainland China. As of 31 December 2020 and 31 December 2019, most of the Bank's exposures arose from businesses with Mainland China non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(K) Corporate governance

Board committees

The Board of Directors has established six committees including the Strategy Committee, Audit committee, Related Party Transactions Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Strategy Committee are:

- to formulate the operational goals and medium-to-long term development strategies of the Bank, and make an overall assessment on strategic risks;
- to consider material investment and financing plans and make proposals to the Board of Directors;
- to supervise and review the implementation of the annual operational and investment plans;
- to evaluate and monitor the implementation of Board resolutions; and
- to make recommendations and proposals on important issues for discussion and determination by the Board of Directors.

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

- to propose the appointment or replacement of external auditors;
- to monitor the internal audit system of the Bank and its implementation, and evaluate the work procedures and work effectiveness of its internal audit department;
- to coordinate the communication between internal auditors and external auditors;
- to audit the financial information of the Bank and disclosure of such information, and is responsible for the annual audit work of the Bank, including issue of a conclusive report on whether the information contained in the audited financial statements is true, accurate, complete and updated, and submit the same to the Board of Directors for consideration;
- to examine the internal control system of the Bank, and make recommendations for improvement in the internal control of the Bank;
- to review and supervise the mechanism for the Bank's employees to whistle blow any misconduct in respect of financial reports, internal control or otherwise, so as to ensure that the Bank always handles the whistle blowing issues in a fair and independent manner and takes appropriate actions;
- to examine the accounting policies, financial reporting procedures and financial position of the Bank; and
- any other task delegated by the Board of Directors.

(iii) Related Party Transactions Control Committee

Main authorities and duties of the Related Party Transactions Control Committee are:

- to identify connected persons of the Company according to relevant laws and regulations;
- to inspect, supervise and review major related party transactions and continuing related party transactions, and to control the risks associated with related party transactions;
- to review the administrative measures on related party transactions of the Bank, and to monitor the establishment and improvement of the related party transactions management system of the Bank; and
- to review the announcements on related party transactions of the Bank.

(K) Corporate governance *(continued)*

Board committees *(continued)*

(iv) Risk and Capital Management Committee

Main authorities and duties of the Risk and Capital Management Committee are:

- to supervise the status of risk control by the senior management of the Bank in relation to credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;
- to make regular assessment on the risk policies, management status, risk-withstanding ability and capital status of the Bank;
- to perform relevant duties under the advanced capital measurement method pursuant to the authorisation given by the Board of Directors;
- to submit proposals on perfecting the management of risks and capital of the Bank;
- to arrange and instruct risk prevention works in accordance with the authorisation of the Board of Directors; and
- any other task delegated by the Board of Directors.

(v) Remuneration and Appraisal Committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

- to study the appraisal standards for directors and senior management, and conduct appraisals and make recommendations based on the actual conditions of the Bank;
- to study and review the remuneration policies and proposals in respect of directors and senior management of the Bank, make recommendations to the Board of Directors and supervise the implementation of such proposals;
- to review the regulations and policies in respect of remuneration of the Bank; and
- any other task delegated by the Board of Directors.

(vi) Nomination Committee

Main authorities and duties of the Nomination Committee are:

- to review the structure, size and composition of the Board of Directors (including their expertise, knowledge and experience) at least once a year and make recommendations on any change to the Board of Directors to implement the strategies of the Bank according to the Bank's business operations, asset scale and shareholding structure of the Bank;
- to study the standards and procedures for selection of directors and senior management, and make recommendations to the Board of Directors;
- to conduct extensive searches for qualified candidates for directors and senior management;
- to conduct preliminary examination on the candidates for directors and senior management and make recommendations to the Board of Directors; and
- any other task delegated by the Board of Directors.